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# ***JPRS Report***

## **Soviet Union**

### ***WORLD ECONOMY & INTERNATIONAL RELATIONS***

***No 12, December 1990***

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# FBIS 50th Anniversary Note

To Our Consumers:

This year the Foreign Broadcast Information Service observes its 50th anniversary.

The service, first called the Foreign Broadcast Monitoring Service, was established in 1941 prior to the U.S. entry into World War II. At the time, a number of U.S. Government officials were concerned about the content of foreign radio broadcasts—a relatively new means of conveying information and propaganda across borders. On their advice, President Franklin D. Roosevelt in late February 1941 allotted money from his emergency fund to institute the recording, translating, transcribing, and analyzing of selected foreign broadcasts for the U.S. Government. During World War II the service demonstrated that monitoring was a fast, economical, and reliable way to follow overseas developments.

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We members of the current staff of FBIS extend our thanks to consumers for their interest in FBIS products. To past staffers we extend our thanks for helping the service reach this anniversary year. At the same time, we pledge our continued commitment to providing a useful information service.



R. W. Manners  
Director  
Foreign Broadcast Information Service

# Soviet Union

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[The following are selected translations from the Russian-language monthly journal MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA published in Moscow by the Institute of World Economy and International Relations of the USSR Academy of Sciences. Refer to the table of contents for a listing of any articles not translated.]

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## World Economy & International Relations

No 12, December 1990

### English Summaries of Major Articles

914M0004A Moscow MIROVAYA EKONOMIKA I  
MEZHDUNARODNYYE OTNOSHENIYA in Russian  
No 12, Dec 90 (signed to press 14 Nov 90) pp 158-159

[Text] A. Kozyrev. "UNO—Democracy Against Totalitarianism." Why was United Nations Organization during 45 years of its existence not able to realize its genuine humanistic, truly democratic, peace-making sense? Why did UNO up to 1985 look like some ideologized overturned world in which authoritarianism seemed to get stronger than democracy? One of the main reasons, in A. Kozyrev's opinion, is the "innermost disease in the East," the tragic paradox of history, the essence of which was, that created by Stalin and in main features maintained up till now authoritarian system had brought into the international relations the principles of class struggle and forced on the other peoples of the world its own model of development and ideological dogmata.

The optimistic scenarium of the future development of UNO relies upon coherent and irreversible democratic processes and humanistic foundations in Soviet Union.

The article "Involuntary Financiers, or Some Enigmas of Economic Behaviour" by V. Avtonomov and A. Auktzionek deals with the problems seldom discussed by Soviet economists. Nowadays every citizen in the West simply must become a financier in his everyday life. Inflationary processes in 1970s-1980s made everybody very sensitive to interest rates and forms of credit.

Various credit institutions succeeded in bringing credit services to every household.

The growing "financialization" of everyday life was bound to have a great impact on people's economic behaviour. The authors assert that this impact was highly controversial.

First of all one should expect the people to behave rationally: to do more accurate calculations, to form more consistent expectations and so on. That is really the case. Still inflation adds uncertainty to economic environment leaving much space for emotions, panics and irrationality.

These controversial processes in economic behaviour are reproduced in economics too. The authors analyze its manifestations in both domains.

In his article "Free Economic Zones and National Economy" A. Kuznetsov shows that such zones usually imply duty-free trade and storage zones which in all other aspects remain part of national territory. "Export promotion free zones" (that term in the author's opinion is the most accurate) are similar in different countries which prefer now not import-substitution but export-oriented strategy of development. Such zones are the

product of compromise between TNC's (investors) and receiving countries. A. Kuznetsov maintains that TNC's are in a better position, because they are free to maneuver and the developing countries are severely competing for foreign capital. Receiving countries have to go to considerable expenses to prepare the ground for foreign investments—the proportion is as high as 4:1.

Besides TNC's are experienced in avoiding full payments to receiving country.

Free export zones, according to the author, contribute undoubtedly to the solving of employment problem in developing countries, but their efficiency with regard to securing access to modern technology and management, improving the quality and technical standards of products, human resources development is doubtful. That's why the Soviet Union should realistically appraise the effects of free zones.

V. Sudarev. "Deideologization of International Relations and Latin America." The impression, that the deideologization in international affairs ought to be an easier task, than the same of economics and internal affairs, is not quite correct. To deideologize world politics completely is hardly possible, since political sympathies and common ideas cannot but influence any government's policy. So, it is a question of interactions and proportions of ideology and national interests.

Deideologization of Soviet foreign policy from the very beginning of perestroika became a subject of vehement polemics amongst our friends in the third world; most of them estimated this process as a renunciation of the antiimperialistic and class struggle; it is quite natural that such a traditional ally of the USSR as Cuba should not accept the new political thinking.

Deideologization problems for Latin America should be considered in a context of freeing of international relations in the West hemisphere from the East-West confrontation. The authors underline the fact, that the process of deideologization began in Latin America much earlier, than the ideas of the new thinking were offered by Soviet leaders. After USA aggression in Dominican Republic in 1965 a number of countries in Latin America proclaimed a principle of ideological pluralism as a base of inter-American system.

The attempts of Contadora group to deideologize the regional conflict in spite of all the problems have been an original alternative to the American methods of conflict regulation.

International relations' deideologization in this region in a high degree depends on the evolution of Soviet-American relations.

G. Diligensky and V. Lectorsky are "Summing Up the Discussion" on the problem of wholeness (integrity) of the modern world (in previous issues of this magazine).

The wholeness of the world doesn't exclude diversity. It rather implies interdependence, but not unification. The

intensification of regional and international links, which are forming the global system, coexists with the upsurge of nationalism in different countries, especially in the Third World, destined to reaffirm their national identities. However the mankind is now entering the new era of global humanistic values. For example all the national peculiarities notwithstanding parliamentary democracy is being accepted worldwide.

The scientists discuss ecological and other limitations of the evolution of civilization. They stress the link between internal freedom of a man and the choice of alternative patterns of the growth of civilization. Their general conclusion is that contrary to traditional Marxist view in contemporary Western society the "superstructure" is not determined by the "basis."

N. Kaptschenko. "Whom Does Such a Position Suit?" During the first years of perestroika in the USSR, a general agreement on the main trends of the foreign policy seemed to exist. But recently these problems become more and more a subject of an acute social struggle. A certain part of Soviet society formed a stable opinion, that the foreign policy of perestroika is a policy of one-side concessions, resulting in a weakening of the position of the USSR in the world, losing its superpower status and understanding its security. Such opinion is based upon confusions and doubts brought about by troubles of perestroika, which are being used by conservators in attempts to convince society, that the new Soviet course in the international relations needs complete reassessment; the aim of their criticism is not to improve some faults or errors, but to return to the pre-perestroika course, based on principles of rivalry and confrontation, which actually have caused catastrophic developments of Soviet economy. Returning to the old strategy in the foreign affairs would give a possibility to maintain untouched the old administrative system inside the country.

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### **United Nations—Democracy Against Totalitarianism**

914M0004B Moscow MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA in Russian No 12, Dec 90 (signed to press 14 Nov 90) pp 5-15

[Article by Andrey Vladimirovich Kozyrev, candidate of historical sciences and RSFSR minister of foreign affairs]

[Text] In 1990 the United Nations celebrated its 45th anniversary and entered a new phase of activity. With good reason, this organization is called a mirror of international affairs. Today it is reflecting the radical changes in the world, providing abundant material for the analysis of past experience and current trends that might influence the future of the world community of states and peoples.

The activities of the United Nations reveal not only the hopes of the world, but also the real political image of each of the 160 countries belonging to it. During the course of UN work, states define their attitude not only toward vital current issues and other participants in international affairs, but also toward the high ideals the organization is supposed to uphold. If the reflection of each individual country and all of them together sometimes leaves much to be desired, we can hardly blame the mirror....

Today, now that the Soviet Union has reached a crossroads, it is a good idea to take an objective look at ourselves.

### **The World Community Reflected in the UN Mirror**

The UN Charter went into force on 24 October 1945, but the United Nations is still a long way from its declared ideal even 45 years later. This is the organization's misfortune rather than its fault, because it cannot be any better than its members.

The very birth of the United Nations marked a dramatic turning point in the 20th century. The nations which had fought fascism together declared themselves united. Together, they announced their determination not to allow any repetition of the horrors of world war and affirmed their faith in the dignity and value of the human individual.

The advancement of this dual goal was essentially a response to the challenge civilization had received from totalitarianism, which had consistently sacrificed the individual, the ethnic group, its own nationality and, finally, other nationalities on the altar of its ideologized machinery of state. A group of democratic aspirations mankind had literally gained through suffering lies at the basis of the United Nations. The human being, with his rights and dignity, was named as the key link in the salvation of civilization. The same being that the totalitarian state saw simply as a cog in the machine for the attainment of messianic, collectivist-ideological goals, revealed his great strength as the seed from which civilized nations grow under the conditions of freedom, along with the possibility of their unification on a voluntary rather than compulsory basis.

In other words, this was a democratic response to such contradictory tendencies of the contemporary era as the increasing individualism of the human being and nationalism of ethnic groups on one side and the objective need for the socialization and internationalization of life on the other. Whereas totalitarianism strives for forcible unification within the framework of an authoritarian new order and the "only true ideology," democracy seeks unity in diversity. It presupposes adherence to common values and standards of civilized coexistence, with the freedom to choose ways of thinking and forms of economic activity and spiritual creativity. Without eliminating the differences in personal or national aspirations, it demands that all of them be realized without any encroachments upon the rights of others and exclusively

by non-violent means, through legal regulation and compromise. The coordination of specific individual interests with common democratic goals is also accomplished through the exercise of human rights—the freedom to have one's own beliefs and to disseminate and defend them individually or collectively, to participate in periodic elections of government officials, etc. Obviously, under these conditions, people also have a chance to reveal their national-cultural aspirations. In contrast to this, totalitarianism, even when it is combined with nationalism, denies the rights of the individual and subordinates them to the machinery of state, nullifying and suppressing all of the distinctive features of individuals and groups, including national groups. In its fascist form, it revealed its potential as a lethal threat to civilization and to all of its national diversity.

With a view to this tragic experience, the United Nations recognized, from the very beginning, the need for all countries and peoples to guarantee the observance of the basic civil liberties and human rights, regardless of beliefs, skin color, nationality, or gender. When states joined the United Nations, they also pledged to respect the right of nations to self-determination, to display tolerance for one another, and to live together in peace like good neighbors. To this end, they swore allegiance to the principles of non-aggression, non-intervention in one another's affairs, and the sanctity of international legal standards.

Although the creation of the United Nations marked a major milestone in the establishment of humanism on the truly global level, it was only the beginning of a new stage of struggle between the ideas and tendencies of totalitarianism and freedom. This conflict was the focus of all UN history.

The UN Charter was signed by governments, but its real authors were the people. This is the reason for the humanistic inspiration and invariable appeal of the very idea of the United Nations. Virtually no single country in the postwar world, however, was capable of bearing the weight of the triumphant democratic upsurge. Virtually all were unprepared, although to differing degrees, to realize these declared goals and ideals. In fact, this problem—the implementation of UN principles—is still the key to the future of the organization itself and to all international development. It is precisely the attitude toward this problem that distinguishes the two previously mentioned tendencies and gauges the maturity of the domestic and foreign policy of states.

#### Roots of Problems

In our country, the common practice for too long was to blame only one side for the difficulties the United Nations encountered in its activity. It is true that the Western countries must accept a significant share of the blame. Suffice it to say that it took many of them a long time to give up their colonial possessions. This seriously inhibited these states' own evolution in the direction of more civilized behavior. The Portuguese colonial empire

is a vivid example of this. Its death throes lasted until the middle of the 1970s and exacted a high price from the Africans and from the mother country, which was one of the most backward countries in Western Europe. The power-based arrogance of those who dreamed of establishing "peace American-style" was also far removed from UN ideals. All of this diminished UN potential for decades and contributed to the deep split between the developed North and the former colonial South, which is still apparent today in the unhealthy outbreaks of anti-Western fever and the allergic reaction to even the legitimate requests of developing countries.

It is time, however, to realize that the paralysis of the United Nations in the atmosphere of East-West confrontation was also caused by a serious ailment in the East. It is a tragic paradox of history that one of the main opponents of Hitler's reich was another totalitarian regime—the authoritarian system which was created by Stalin and then retained its main features until just recently. While it signed the UN Charter with one hand, it was usurping the fruits of its own people's great sacrifices with the other. After saving the people of Eastern Europe from the "brown plague," it began imposing (sometimes by force) its own development pattern and ideological dogmas on the liberated people. Replacing criticism of the other system's shortcomings with the aggressive rejection of the democratic values of human civilization, it preached the intransigence of ideological "class" struggle in the specific form of inter-governmental confrontation, which was a complete denial of UN goals and objectives. Instead of being united, nations were split into opposing blocs. As a result, the United Nations could do little more than serve as the arena of propagandistic battles.

The developing countries were also drawn into the ideological confrontation between the East and the West after they joined the worldwide organization. Whether they wanted to or not, they had to choose one side or the other in the escalating global confrontation. Even their response in the form of the idea of non-alignment with either of the inimical blocs was inappropriate in many ways. The Movement for Non-Alignment must be given credit for establishing a better climate in the international arena in general and the United Nations in particular. Its assets included its commitment to decolonization, national sovereignty, and the equality of nations. In time, however, it began to acquire the features of a "third bloc." Guided by the knowledge that the non-aligned countries represented two-thirds of the UN members, this bloc tried to use its guaranteed majority vote in the UN General Assembly, something which had been abused in the first years by the United States and the former colonial powers, to dictate its own wishes—this time to the West.

We should take pride in our support of the decolonization process, including our support in the United Nations. This year marked the 30th anniversary of the

USSR-initiated Declaration on the Granting of Independence to Colonial Countries and Peoples, which justifiably won international recognition as one of the most important UN documents. The declaration proceeds consistently from the right of nations to self-determination. It is obvious, however, that when the Soviet administrative system directed the energy of the struggle for national liberation (after the people of the Asian and African countries had already acquired their independence) into the channel of global confrontation with the West, it played a tragic role in their fate.

What the large and small Third World countries—in the same way as Russia and the other republics of the Soviet Union—needed was not a search for internal and external enemies or a barrier between them and the most highly developed states and “alien” values, but hard work to modernize their own countries and establish partnerships with other states, especially in view of the profound structural shifts in the West at that time for the purpose of establishing legal and economically dynamic societies.

Many of the developing countries, however, were seduced by the anti-Western, “ultra-revolutionary” rhetoric the “socialist camp” employed in the United Nations. For the most radical regimes, which were copying the worst features of the administrative system in the USSR, and for us, the “intoxication with phraseology” turned into a real “binge” in the United Nations, with all of the ensuing consequences. As a result, the distinctive features of the “socialist orientation” almost always included economic underdevelopment, alienation from world economic ties, the bureaucratization and militarization of all spheres of life, and the rejection of democratic principles.

It is no coincidence that the ideological and political battles with the West in the United Nations revolved around the subject matter of civil liberties. When we wrote about human rights, we always enclosed the very term in cynical quotation marks, and we included the ideas of political pluralism and the free movement of ideas and people among the most pernicious forms of “psychological warfare.” It turned out that what the bearers of the “most progressive ideology” feared most of all was the open comparison of their views and accomplishments to those of the “decadent” and “doomed” order. Many regimes in the Third World turned out to be our natural allies in this sphere as well. Outside the United Nations, when unsolved problems of development had to be faced directly, sensible groups in these countries learned that the ideology of total nationalization would lead them into a blind alley. Gradually, many of them began seeking realistic patterns of development, including the establishment of ties with the West. In the United Nations, however, there was a specific form of “mob rule,” and the organization turned into an ideologized mirror, where it appeared that the forces for authoritarianism were gaining the upper hand in the historical confrontation in the 1970s and early 1980s.

One of the incidents which provided a grotesque demonstration of the moral and political degradation of the United Nations was the pompous speech Idi Amin, the bloodthirsty Ugandan dictator, delivered in the General Assembly in 1974, when he said that he had “vanquished the British Empire” and made some impassioned statements against “imperialism, Zionism, and racism.”

#### From Ideology to Realism

For a long time, the authoritarian system turned to the UN mirror, in the same way as the wicked stepmother in the fairy tale, each year and asked, “Am I not the fairest of all?” To guarantee a positive reply, it invented a new propaganda “initiative” each time, which was calculated to display its love of peace, but which contained provisions that were certain to be unacceptable to the United States and its “imperialist” allies. The favorite ones were variations on the theme of an immediate ban on nuclear weapons, which were always rejected by the West because they were merely declarative and did not address the problem of correcting imbalances in conventional arms. Of course, this could never have brought about any real reduction of the nuclear threat and was simply designed for the covert or overt exchange of Third World votes in support of the “socialist camp” for its position on various matters in the United Nations. This was the “social mandate” of the system for which slogans were more important than economics, hollow “international prestige” was more valuable than real participation in international division of labor, and the criterion of success was impressive window-dressing instead of routine but steady accomplishments.

Meanwhile, the problems we had accumulated and the real requirements of our development and all world development were dictating the need for a resolute move toward realism in the United Nations, and this move began to be made in 1985.

No matter how many UN resolutions were passed to condemn nuclear weapons, we were still draining the blood out of our economy and, even when stagnation reached its peak, we were not only involved in an unrestrained arms race, but were sometimes even taking the initiative in this insane competition (as in the case, for example, of the deployment of intermediate- and shorter-range missiles or tens of thousands of tanks in Europe). It is not surprising that we are having so much difficulty today getting out of the traps we set ourselves and are having to destroy many more missiles and armored vehicles than our Western negotiating partners. The “dubious advantage” we gained from the antinuclear rhetoric in the United Nations is important to remember today, now that we want our statements against the nuclear threat to correspond to political realities and not lead us into utopian illusion or propagandistic “Pyrrhic victories.” At the same time, it is obvious that the United Nations could play a constructive role in the genuine globalization of arms limitation and disarmament efforts by including other nuclear powers in these processes along with the USSR and the

United States, as well as Third World states, especially those standing on the threshold of the acquisition of their own arsenals of weapons of mass destruction and their delivery vehicles. Whereas we and the Third World have a common interest in deterring the nuclear-space arms race, we and the West have a common interest in the nonproliferation of the latest means of warfare, especially since many of the new owners of missiles and nuclear arms could be countries located in the already turbulent zones along the perimeter of the Soviet southern borders. Of course, the turn toward realism was much more difficult for the United Nations than continued progression along the propagandistic downhill track, and it was naturally resisted by all those preferring discussions of the limitation of only the arms of other countries. It is quite possible that unpopular decisions will have to be made, and we may have to give up the primitive newspaper clichés about the UN support for our position on disarmament. In this case, however, the organization will be a more accurate reflection of our real interests and the objectives of real disarmament.

Ideologization also prevented the disclosure of UN potential to resolve conflicts. One of the most repulsive signs of this was observed by A.D. Sakharov: "The General Assembly's adoption (and essentially with almost no discussion) of the resolution declaring Zionism a form of racism and racial discrimination was a regrettable incident. All unprejudiced people know that Zionism is the ideology of the national rebirth of the Jewish people after 2,000 years of diaspora, and that this ideology is not directed against other nationalities. The passage of this kind of resolution, in my opinion, hurt the prestige of the United Nations." It is true that it is not the United Nations' job to interfere in the ideological sphere instead of condemning the unlawful practices of a state (in this case, Israel) in the territories occupied during a conflict. Otherwise, instead of defending legality, it might be drawn into the endless "vendettas" of the supporters and opponents of, for instance, fundamentalism or such nationalistic currents as pan-Africanism, pan-Slavism, and the other "isms" with their own claims to exclusivity and superiority. The experience of recent years proved that deideologization was the oxygen that revitalized the peace-making potential of the United Nations.

The rebirth of the United Nations and the restoration of faith in the feasibility of its principles could be said to have begun with the withdrawal of Soviet troops from Afghanistan, which it had been demanding—and this must be admitted to the credit of the General Assembly—for 9 years.

With the mechanism of interaction by the five permanent members of the Security Council (the USSR, United States, England, France, and China) playing a key role, armed clashes in the five regions of the most acute conflicts were replaced by UN-sponsored negotiations, and more than 100,000 civilian and military specialists from various countries—the so-called UN

"blue berets"—were called out to monitor the observance of the terms of armistice, the organization of free elections, and other measures to restore international and civil peace. This was the organization's completely tangible contribution to the cause of peace, in sharp contrast to the "struggle for peace" that had recently been waged in the United Nations against the "forces of imperialism, Zionism, and hegemonism" and had threatened to "demolish" them. In this connection, it is important that although the financing of UN operations in conflict zones costs money, including our money, this kind of investment is far more profitable than the incomparably more expensive practice of unilateral intervention (not to mention its moral and political advantages).

Iraq's aggression against Kuwait was a serious test for us and for the United Nations. Once again, although the Western countries' earlier relations with the aggressor had differed in many respects (the United States was "at sword's point" with the regime of Saddam Husayn, but France was delivering weapons to it), all three of the Western permanent members of the Security Council resolutely opposed the invasion. China showed some restraint, but then it decided not to veto Security Council measures against Iraq because it did not want to risk a fight with the West. Cuba, a nonpermanent member of the council, systematically refused to support these measures.

The position of the USSR was pivotal. In contrast to its earlier practices, it did not rush to the support of its "natural ally" in the Middle East, which had traditionally taken a "principled anti-imperialist stance." The Soviet leadership immediately announced the cessation of arms shipments to Baghdad and supported the condemnation of the invasion and the institution of economic sanctions in the Security Council.

This was highly appreciated in the developed countries as a serious shift in USSR policy and was rightfully applauded as confirmation of the many USSR statements of commitment to the principles of international law and order. This also revealed the degree to which we and our partners in the West are not inclined to apply the normal criteria of civilized behavior to the Soviet line but do applaud the correction of past abnormalities. It is no secret that our UN representatives did not initiate a single one of the measures against the aggressor and almost always delayed their institution.

The Soviet move to put the Military Staff Committee of the UN Security Council to work on this crisis was also ambiguous. It was not completely clear which mandate the USSR planned to give the committee, unless it simply wanted an overall assessment of the situation in the region. There were still Soviet military specialists in Iraq. The situation, however, called for the immediate commission of armed forces to action—on land at the request of Saudi Arabia, which was afraid of the spread of the aggression and turned to many countries (including the USSR) for support, and on sea to secure the



effectiveness of the UN sanctions and to intercept and return any ships attempting to transport cargo to or from Iraq. The first to offer these forces or support for them was the United States, followed by England, France, and many other countries, including such diverse states as Australia, Argentina, and Bulgaria. In other words, the civilized world realized it was impossible to stand aside while an armed aggressor flouted its principles. The USSR, on the other hand, was wholly on the side of this world but was not completely a part of it. It still had one foot in the past.

This ambivalence was also revealed in the arguments we cited against participation in the international forces supporting the sanctions—our references to the “post-Afghan” syndrome. It was not completely logical, however, to deny even the possibility of the offer of our arms for the struggle against UN-censured aggression while continuing military shipments to the same Afghanistan, to the forces on whose side our soldiers had fought earlier, or, for instance, to the regimes in Angola or Ethiopia, which were fighting protracted wars with the opposition. It would seem that in debatable cases (and this is the very least that could be said about this aid), the strongest reflex should be non-involvement in conflicts abroad.

A more resolute and consistent reassessment of our political and ideological guidelines for military exports to the Third World would assist in eliminating the most expensive mechanisms of Soviet foreign policy and would help us pursue a more precise line in UN cooperation with peaceful Western and developing countries.

The advantages of UN interaction in economic, ecological, and other spheres are equally impressive. Suffice it to say that pathological secrecy and the refusal to disclose the kind of socioeconomic data that are available to everyone in other countries led to the Soviet Union's voluntary non-participation in the 1972 UN conference on the environment. As a result of this policy, our country, which was experiencing the most urgent need for solutions to ecological problems, isolated itself from dozens of international programs and agreements of this nature. Now we are trying to make up for lost time by becoming party to them. Our awakening has been equally dramatic in another sphere of UN activity we previously ignored: the elimination of the after-effects of natural disasters. The USSR did not become party to the UN program until after the earthquake in Armenia. Today we are also considering membership in the IBRD, the IMF, and the GATT—other organs of the UN system—and the fact that we viewed these organizations as an instrument of neocolonial exploitation for almost half a century hurt only the Soviet economy, which was cut off from most of the intensive spheres of development in the world economy and was turned into a raw-material appendage of this economy. We also described the organization's multifaceted activity to set the highest standards in the social and humanitarian spheres as nothing other than an attempt to “depoliticize” UN activity and divert it from the struggle against the

nuclear threat. Many elements of this truly collective expertise, however, will help in averting inadmissible improvisations and voluntaristic impulses.

The opportunity of equal participation in the elaboration of these standards and their application in our own social and economic practices constitute one of the main advantages of participation in the activities of the United Nations and other international organizations. It is clear that a realistic approach to the United Nations and the entire group of mechanisms of multilateral interaction, with an emphasis on the real interests of our country instead of still-born schemes, presupposes the resolute and uncompromising refusal to ideologize and politicize their activities and demands the consistent concentration of these activities within each international body's sphere of expertise.

### Tendencies and Prospects

As an arena of worldwide debate and compromise for the attainment of common goals, the United Nations is promoting the development of the culture of political dialogue. By participating in the resolution of the political, economic, ecological, and humanitarian-social problems that concern all countries, it is promoting the consolidation of forces on the national and international levels and motivating entry into a peaceful and civilized period of historical development. All of this is an effort to preserve the human race now that it is facing these common nuclear, ecological, and other global problems. All of this reflects the need not to remain on the sidelines of scientific and technical progress, connected with the acknowledgement of the need for the freedom of economic enterprise and the observance of basic human rights.

All of this is also connected with the growing realization of the futility of coercive forms of politico-ideological struggle. The information revolution and the general rise in the cultural level of the population in many states are being accompanied by the recognition of common human ethical and cultural values and the equalization of the criteria of social development, which represent an increasingly clear reflection of the spirit of concrete (in contrast to abstract or messianic) humanism.

More and more people on all continents are beginning to overcome the syndrome of immunodeficiency to utopian and authoritarian schemes and are learning to appreciate the accomplishments of the whole human culture and environment. There is a genuine opportunity for the real, although, of course, extremely complicated and gradual, development of the highest species—civilized man. In contrast to rational man, he is not simply able to recognize and transform his environment, but is also guided in all of his actions by the principles of nonviolence, tolerance, and commitment to common human values. His spirit is permeated with respect for the world's religions and the cultural traditions of all nationalities and ethnic groups. He is distinguished by organic respect for individual rights and for the uniqueness of

the individual, regardless of national or other differences, the ability to appreciate and preserve civilization as a unique and fragile phenomenon, and innate legal, ecological, and technological standards.

The idea of the new man has been elaborated in various forms for a long time in Russia. Nikolay Berdyayev wrote about the synthesis of common human ideals and the "regeneration of the human race as humanity" in his work "The Purpose of Creation." The idea that all mankind was climbing a single ladder of civilization was expressed in the dictionary of the Russian language by Vladimir Dal, who believed that the human kingdom was distinguished by reason, will, morality, and conscience.

The road to this kingdom, which was described by prophetic minds at the dawn of the 20th century, was obscured, however, by the monster of totalitarianism. Today the ideals of the individual and humanity are proclaimed in the United Nations. M.S. Gorbachev spoke of the development of the common human ideal from its rostrum. The UN secretary-general spoke of the need for planetary, global patriotism (in an amazing echo of Vladimir Solovyev's belief that "it is the moral obligation of the genuine patriot to serve the people in humanity and humanity in the people"). When President G. Bush of the United States addressed the UN General Assembly, he said that "if the 20th century goes down in the annals of history as the century of the state, the 21st should be the age of liberation—the century of the individual."

The United Nations, whose activities reflect all of these processes, is now an active participant in them. People are even saying that it could become something like a "supergovernment" in the future. There are also those, however, who still think of the organization as an unproductive talk-shop.

It appears, however, that as the United Nations grows stronger, it will continue to serve its original purpose as a center for the coordination of the actions of states. It is not a supranational structure and it is unlikely to begin governing the world in some kind of conflict-free internationalism. As we now know, this does not even exist between allies or even within a single federated state. First of all, societies and the relations between them are still far removed from UN ideals. Second, democracy and law cannot take the place of national distinctions and specific interests, but only aid in revealing and satisfying them in civilized ways, through compromise and agreement.

It is also important to see the distinct tendency toward stronger national identity throughout the world and the consolidation of national states. In itself, this does not pose a threat to the United Nations or the realization of its ideals. The threat arises when nationalist ambitions are combined with a coercive ideology conflicting with the very spirit of the UN Charter or when these ambitions are thwarted by force.

The UN decelerating mechanism must also be surmounted in the South-North link. Many of the Third World states are having trouble making the move to the commonly accepted principles of world economics and are suffering from inferiority complexes and feelings of isolation from the more highly developed members of the world community. The United States—and the West as a whole—has to continue fighting its suspicions of the multilateral institutions that accumulated during the years of ideological struggle. The United Nations could be an active participant and catalyst in these processes. The unanimous approval of the politically unprecedented joint USSR-U.S. initiative to strengthen the United Nations was a promising start and is justifiably viewed as a point of departure for concerted action in the future.

### **Many Problems Still Exist, But We Could Have Everything Under Control**

The revitalization of the United Nations we have been witnessing since 1985 is surpassing all realistic expectations. Nevertheless, we have to be completely aware that it will take a great deal of convincing evidence of our new constructive approach to overcome the mistrust and suspicion of the United Nations that accumulated in the United States and the other highly developed countries during the period of confrontation. Without this, we could hardly expect the organization to serve as an effective instrument of peace and a channel for the transfer of progressive social and production practices. We spent too much time reveling in the "isolation of the West" in the United Nations and cherishing the hope that we would "bury" it or that it would at least have to accept our rules of peaceful coexistence as a "form of class struggle." It turned out, however, that isolation from the West was more injurious to us and many Third World countries than to the United States and its allies. Furthermore, the main threat facing us was not the possibility of becoming the target of Western expansion, but the complete loss of the West's interest in us and trust in us as partners, which would cause us to lag hopelessly behind the Western technological express and get lost in the crowd of backward and authoritarian regimes.

Luckily, when we began moving toward democratization and perestroika, we learned that our self-isolation was not irreversible. We revealed considerable potential for interaction with the outside world, including the West. By that time the image of the developed countries had changed radically, acquiring the lasting features of pluralist rule-of-law societies potentially receptive to UN ideals. For a long time the other side did not want to notice these changes and essentially refused to cooperate, even within the UN framework. Now, however, the processes which began in the Soviet Union have been stepped up dramatically in the East European countries and have essentially caused the collapse of the camp of "barracks socialism." There are previously unforeseen opportunities for East-West compatibility on a civilized legal basis and, consequently, for their interaction in the

United Nations. It is obvious that the use of these opportunities will depend largely on the speed and irreversibility of the renewal in the East, which will also stimulate the positive evolution of the positions of other groups of states.

The colossal weight of our state, which occupies one-sixth of the earth's dry land in the heart of Eurasia, could be of decisive significance in the overall development of the United Nations. Although the developing countries constitute the majority of its members, they are unlikely to determine its permanent guidelines on their own. In this diverse world, there is a strong desire to surmount underdevelopment and arrange for mutually beneficial cooperation with more progressive societies and an explosive mixture of social, ethnic, and other conflicts, compounded by corruption, underdeveloped democratic structures, and the inclination to settle disputes by force. The prospects for the United Nations will ultimately depend on the balance of these, and it is completely possible that the Soviet Union could tip the scales.

If our perestroika should follow the worst-case scenario of stagnation or regression, it is possible that the sizable anti-Western alliance could be revived in the United Nations and that its symbol of faith would once again be absolute commitment to the principle of nonintervention in internal affairs, combined with the denial of the common human nature of democratic standards and human rights. The response of the Western group would probably be direct or indirect alienation from the United Nations and concentration on its own mechanisms of integration, which are being developed today in the European Community, between the United States and Canada, in the Pacific Asian zone, and between the United States and Japan. The technological, informational, and cultural gap between the two worlds and the potential for confrontation between them are certain to grow. An anti-utopia like the ones envisaged by Zamyatin and Orwell could be established in the future, at least in one of these worlds.

The optimistic scenario of the consolidation of democratic processes in our country, the East European countries, and a growing group of Third World states would hold out the promise of an eventual "golden age" of the United Nations. The main obstacles are our own internal problems: the stubborn opposition to the transition to the market economy, which demonstrated its superiority in the surrounding world long ago, the opposition to the full-scale development of the mechanisms of democracy and political pluralism, the efforts to curtail—supposedly in line with national tradition—the observance of universally acknowledged human rights and liberties in our legislation and administrative practices, etc.

Seeing the institution of commonly accepted democratic standards in our country (with a view to national distinctions, of course, as in the West) as some kind of threat to our national uniqueness is tantamount to

contempt for our national traditions. The Russian culture was never afraid of contact with the accomplishments of other nations and became even greater as a result, using these accomplishments to augment its own significance in human civilization. "The mission of Russia," N. Berdyayev wrote in the previously mentioned work, "is to be both East and West, connecting the two worlds." According to V.I. Solovyev, "our national spirit affirms its dignity in open communication with all mankind, and not in isolation from it." A.D. Sakharov upheld this enlightened Russian tradition by stressing that "a national character capable of rational existence in an increasingly complex world can only develop in an atmosphere of democracy."

This is the foundation for the search for solutions to problems in our multinational country. The main thing is to do everything on a genuinely democratic and legal basis. Past experience has shown us that attempts to break up or preserve multinational entities by force, contrary to the democratically expressed wishes of national groups for self-determination, can have the gravest implications. By the same token, legal autonomy, including the membership of individual countries and national groups in the United Nations, does not prevent the development of the most sweeping integrative ties between them. A vivid example of this is the European Community, uniting 12 states and acquiring stronger and stronger features of political, economic, and sociolegal integrity. It appears that the former colonial powers, which are united in the European Community, have learned from their own experience that non-violent relations are preferable, not only with each other, but also with the countries that once constituted the periphery of their possessions and are now cooperating closely with them, including their cooperation in the UN framework.

In today's world, only voluntary and equitable associations of national groups and states, meeting the goals and principles of the United Nations, are justified in the military-strategic, political, and economic sense.

In general, we can say that the profound changes in the life of the Soviet Union, the Russian Federation, and other republics on a democratic basis are also presenting the United Nations with unprecedented opportunities. Our reassessment of the role and place of the United Nations, our application of its principles to our own actions, rather than the merely verbal acknowledgement of these principles, and our attempt to develop opportunities for multilateral cooperation are the logical result of the decision to dismantle the authoritarian system that generated self-isolation, economic autarchy, and uncivilized political behavior. The creation of open civil societies and rule-of-law states in the sovereign republics and in the renewed union as a whole and the encouragement of dynamic economic development through the institution of market relations go hand in hand with the genuine inclusion of civilized states in the world community.

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### Free Zones and the National Economy

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[Text] Much has been said recently in our country about the so-called free (or special) economic zones. Their creation is viewed as one way of attracting foreign capital and securing the modernization of the Soviet economy. The matter has been the subject of intense debate in the press. The supporters of the zones point to the example of these zones in states with extremely different levels of economic development, such as Great Britain and Egypt or the PRC and South Korea.<sup>1</sup> They cite impressive estimates of the total number of free zones in the world: 400, 700, or even 2,000.<sup>2</sup> This kind of undifferentiated approach sometimes overlooks the fact that the term "free economic zone" is used in different countries and in different situations to refer to territories differing widely in their status and purpose.

In the most traditional sense, the free economic zone is the part of the sovereign territory of a state where goods of foreign origin can be stored, sold, and bought without paying the usual customs duties. In other words, this is something like a duty-free trade and warehousing zone which remains part of national territory but is outside the boundaries of state borders as far as financial regulations are concerned (the duty-free shops in large international airports are one example of this). These zones have existed for decades to facilitate international trade in many industrial countries, including Italy, Spain, the FRG, and others.

Sometimes the term "free zones" is used in foreign economic literature to refer to business zones in the United States and Great Britain. They appeared in these countries in the beginning of the 1980s as part of the neoconservative variety of regional policy, aimed at stimulating small and medium business in depressed regions by giving businessmen (primarily small and medium) more freedom to act and significant financial privileges.<sup>3</sup> These programs are not specifically intended to attract foreign capital. The industrial parks established in the industrially developed countries (a new form of territorial integration of science with production), which are also sometimes categorized as free zones, are not intended for this purpose either.

When different types of free zones are being considered for the Soviet Union, they are usually envisioned as special territories intended to serve as a site of foreign direct investment in industry and services. Although the

first zone of this kind came into being at the end of the 1950s in Western Europe (Ireland), the zones have mainly been established in developing countries. In the 1970s they were one of the signs of the Third World states' transition from import substitution to export production in their development strategy. They became even more popular in the 1980s, when several developing countries with an export-oriented economy joined the ranks of the "new industrial nations." The spread of the export industrial zones in the developing countries has been uneven. In spite of frequent failures, however, the number has risen constantly: There were 2 in 1966, 79 in 1975, and more than 260 in 1985.<sup>4</sup>

Various names are used for these zones in the documents of international organizations. The best name would seem to be "free export processing zones" (FEPZ). It reflects the three most important features of these entities: First, that they are created to serve the world market; second, that many of the economic standards and restrictions applicable to the rest of the country's territory do not extend to them; third, that although these zones are "free" to a certain extent, they are still an element of the government regulation of foreign economic ties.

If we take a look at Soviet economic appraisals of the FEPZ's and the statements of those who support their creation in the USSR, we notice two important points. On the one hand, the prevailing approach is an undiscerning view of the effects of these zones on the national economy of the host country, in which references to the economic achievements of various states are substituted for a specific analysis of the free zones' contribution to this success.<sup>5</sup> On the other hand, the discussions focus on the distinctive features of the operational mechanism of the zones, especially the kinds of privileges extended to foreign capital, while overlooking the fundamental issue of their economic purpose. For this reason, it seems useful to take a look at the experience of existing zones to find an answer to this question and check several hypotheses, which have contributed most to the common view of the contribution of these special zones to the economy of the host country.

The idea of the FEPZ aroused the interest of the developing countries in the 1970s and 1980s at a time of growing disillusionment with the import-substitution strategy of development. Under these conditions, the creation of free zones looked like a promising intermediate step on the road to the export-oriented type of development. On the one hand, the zones were supposed to attract foreign capital, technology, and expertise and create new jobs and, on the other, they were supposed to guard local producers against direct competition with foreign firms because of their export emphasis. On the official level, the FEPZ was "a special industrial region located outside customs barriers in the physical and/or administrative sense and geared to export production. It has an infrastructure capable of attracting foreign capital and promoting its establishment in the zone; besides this, foreign capital usually finds additional incentives

and advantages there."<sup>6</sup> The name could also be used for foreign enterprises enjoying special privileges and serving primarily foreign markets (the Mexican "maquiladoras," plants opened by American firms in the border regions of Mexico for the purpose of shipping products to the U.S. market, are one example). In essence, the FEPZ is an agglomerate of "world" factories of this kind, and the term could therefore be used to define a territory and a status.

The conceptual and organizational similarity of FEPZ's operating in completely different countries is striking, particularly the commercial and financial incentives and operational conditions offered to foreign investors. The most important and most typical privilege for the foreign investor is the virtual absence of restrictions on his activity, especially on his right to transfer profits and capital. This applies even in countries where foreign capital as a whole is subject to strict control. Other typical features of the free zones are the following:

The complete exemption of machines, raw materials, and components brought into the zone for the organization of production from duties and other tariffs;

The exemption of foreign firms from income taxes (for a specific period of time) and the offer of some temporary privileges in the payment of all other direct and indirect taxes and fees usually paid by foreign firms in the given country;

Preferential credit terms;

The leasing of land and buildings and the offer of transportation services at preferential rates and discounts;

The presence of the necessary infrastructure, residential buildings, and trade, medical, and other establishments for inhabitants of the zone;

The existence of a special administrative structure to simplify the foreign investor's inclusion in the zone and contact with government officials.

One of the main features of the free zones in the developing countries is the set of special employment regulations (usually limiting the social protection of labor, prohibiting union activity in the zone, suspending labor laws on the minimum wage and the maximum workday, exempting businessmen from contributions to social insurance funds, etc.).

This uniformity is far from coincidental. It reflects the important fact that in contrast to other national economic development projects, based on the specific conditions of individual states, the free zones are created as economic enclaves outside the national economic framework of the host country. The economic priorities of the host countries usually are not recorded directly in the documents regulating the economic and legal status of the zones, although they are frequently stipulated in the political declarations of their governments. In rare cases, they take the form of special government regulations, as

in the PRC, where the state encourages the formation of joint ventures with participation by local firms in the FEPZ. When we look at the history of the creation and operation of the free zones, however, it appears that their organizers decided from the very beginning that the zones could only influence the national economy in positive ways and did not need special regulation. In essence, governments have concentrated on survival in the competition for foreign capital. This situation is not a coincidence. It attests to a definite internal contradiction of the FEPZ as an element of contemporary international economic relations.

This contradiction arose because the free zones are a product of cooperation and, consequently, of compromise between the transnational corporations investing the capital and the governments of the host countries. It is clear that the initial factors motivating the two sides to cooperate within this framework cannot coincide. The fact that the inevitable conflict of interests is eventually resolved in favor of the TNC's is predetermined by the competitive potential of the partners. The transnational corporations essentially represent the monopolistic owners of investment capital and modern technology. They have considerable freedom in the choice of countries and regions for the distribution of their investments, whereas the developing states have to compete with each other primarily on the basis of widely available resources (the main one is untrained manpower).

This means that the success of FEPZ's depends primarily on the degree to which their parameters correspond to TNC interests. Judging by the present theory of the motivation of foreign direct investments, we could say that the FEPZ is capable of attracting foreign investors only on the condition that it meets at least the following requirements (not necessarily all at once): cheap production factors; proximity to sales markets and/or raw material sources; and special financial and administrative conditions (the economic "climate") allowing the TNC's to derive benefits from their international structure. This means that if the developing countries without any natural resources and without a convenient geographic location want to attract foreign investments, they will have to compensate for these lacks by offering the investor their own resources at low prices and on the most preferential terms possible. This is the main guideline of the FEPZ's in the developing countries. They are essentially used for the "export" of manpower and some type of raw materials and local products (for use in enterprises located in the zones) that would not be likely to attract the attention of the TNC's if they were not sold on terms extremely convenient for the buyer. The primary objective is the resolution of the problem of surplus manpower. All of the accumulated experience of the free zones in the developing countries confirms the conclusion that was drawn by a group of researchers from the FRG back in the late 1970s: "The creation of a modern infrastructure and the granting of tariff, tax, and currency privileges can facilitate the utilization of labor

resources in regions where none of the other prerequisites for the organization of profitable production exist."<sup>7</sup>

This explains the similarity of existing FEPZ's: All of them are designed to serve as "islands" of the world market within national territory, bringing foreign capital closer to a resource as comparatively immobile as manpower on terms corresponding best to the TNC requirements for "overseas" production. This last factor has become particularly important in recent years. The corporation is genuinely international if it is not only geographically closer to raw material sources or the market and optimizes intraorganizational division of labor, but also acquires the extensive freedom to maneuver financial resources by virtue of the fact that its subdivisions are operating in different monetary, tax, and economic systems. Intraorganizational trade, transfer prices, and tax planning allow the TNC's to weaken government control over the movement of their financial resources.

In this context, it is clear why the competition between developing countries for the attraction of foreign capital led to the present model of the free zone. It satisfies most of the TNC requirements for the support bases of "overseas" production, in which the foreign investor transfers the burden of the initial organization of production—the creation of the infrastructure and the initial training of workers—to the host country and reserves himself the right of the virtually unsupervised management of capital and profits. The standardization of the operational principles of the zones in different countries facilitates the transfer of capital and production from one zone to another. This makes the competition between host countries even more intense.

The zones' dependence on attracted capital makes them extremely vulnerable under the conditions of highly mobile foreign investments. In an effort to keep the foreign firms in the zones, the zone organizers have had to escalate privileges and concessions, and this ultimately undermines their position even more. The inclination of firms to "migrate" from one zone to another can be judged from information about the Bataan zone in the Philippines. The total number of firms with subdivisions in the zone was virtually the same for several years: 51 in 1979 and 52 in 1982. In 1979, however, four firms closed their enterprises in the zone, and four others opened enterprises; in 1980 five opened enterprises and four closed them; in 1981 the respective figures were three and three; in 1982 the figures were two and four.<sup>8</sup> In other words, the composition of foreign firms in the zone was renewed by 56 percent in just 4 years.

The degree of foreign capital mobility is directly related to a matter of great importance to the host country—the size of the expenditures needed for the creation of a free zone. The expenditures can be divided into two groups: The first is the actual expenditures on the preparation of

territory, personnel, the construction of buildings, international advertising, etc; the second is the unearned profit (the income the host country could earn if the enterprises in the zone did not have special privileges).

The actual expenditures can reach tremendous proportions. According to a study of 26 countries by the Oriental Studies Institute of the USSR Academy of Sciences, host states spent an average of at least 4 dollars of their own for each dollar of foreign investment they attracted. In the PRC, for example, foreign investments in the four special economic zones totaled 4 billion dollars in 1989, but the PRC's "own" initial investment was 22 billion dollars (or 5.5 dollars for each attracted dollar).<sup>9</sup> In view of the fact that more than half of this sum was financed with foreign credit, on which interest has to be paid, the actual ratio of expenditures to results is even less favorable. From the economic standpoint, such huge expenditures can only be recouped if the zones function for a long time with a constant high return. Therefore, after crossing a certain line in the size of initial capital investments, the host countries become the hostages of their own free zones. After these huge expenditures, they cannot take the risk of losing the favor of foreign investors. Just as any other large investment project, the FEPZ gradually acquires its own inertia, absorbing more and more new resources.

As far as the unreceived profits are concerned, studies and surveys of foreign investors indicate that the financial privileges that are usually associated with the free zones are far from their main consideration. They attach much greater importance to political stability in the host countries, the overall state of their economy, the attitude of the government and population toward private ownership, and the tradition of observing international agreements and contracts. These views were expressed at international seminars in Moscow<sup>10</sup> and Tokyo. In particular, investors stressed that some "invisible" incentives, such as the elimination of bureaucratic red tape, mean much more than perceptible financial privileges. In any case, there are zones (in India, for example) which have been successful in spite of the negligible tax privileges they grant.

Of course, this does not mean that the TNC's do not care at all about the financial "climate" in the FEPZ. Nevertheless, there are certain circumstances that make corporations less receptive to the privileges. This means that host countries which are particularly generous in granting these privileges are incurring unnecessary losses.

To a certain extent, the significance of financial privileges is diminished by the form of taxation in which income exempt from taxes in the host country is taxed in the TNC's country of residence. It is more important, however, that international corporations have established an efficient system for the intraorganizational redistribution of financial resources to virtually take them out of the control of government agencies in the

states where their headquarters are located. The organizers of free zones should not lose sight of this. Of course, precise numerical estimates would be extremely difficult, but experts, including UN experts, believe that huge sums can be transferred through these channels.<sup>11</sup>

The main leak is connected with the intraorganizational trade in components and technology and the extension of intraorganizational credit.<sup>12</sup> Indirect confirmation of this can be found in the statistics of profits transferred by branches of American corporations to the United States. In 1984, 1,949 of 2,547 foreign firms controlled by American corporations preferred to repatriate profits by paying parent firms interest on credit, rent, and fees for the use of technology, expertise, and trademarks, despite the fact that the tax rate on this kind of income is higher in the United States than the rate on income in the form of dividends (51 percent and 34 percent respectively).<sup>13</sup> In 1978 American corporations received 82 percent of their net income from royalties, license payments, and fees for administrative services through intraorganizational channels (in comparison with 60 percent in 1960). Furthermore, license sales represented 40 percent of the total sales of branches located within U.S. territory, as compared to 93 percent for the overseas branches. W. Chadson established that average royalties in intraorganizational exchanges always surpass the rates in contracts with independent firms.<sup>14</sup> These data agree with the results of a study C. Oman conducted in South Korea and Brazil: In South Korea the firms controlled by foreign capital accounted for only 25 percent of all license agreements, but they were responsible for more than 40 percent of all the licensing fees transferred abroad; the respective figures for Brazil were 20 percent and 75 percent.<sup>15</sup>

The transfer of profits in the form of royalties is convenient for overseas branches because royalties are listed as an expenditure in their profit and loss statements, and this reduces their taxable profits. Because royalties and other such payments are usually calculated as a percentage of the firm's total sales, they can be taken out of the country legally, even if the branch suffers a loss. Australian researcher P. Warr pointed out an apparent contradiction in the operations of many foreign firms in free zones in this connection. For decades, they have declared losses and have not had to pay taxes, but they have simultaneously expanded production.<sup>16</sup> There is only one explanation for this paradox: The production operations of these firms are actually profitable, but the parent company uses non-traditional methods of repatriating income to take its branches out of the usual spheres of financial control. Finally, in joint ventures the foreign participant can guarantee himself a profit regardless of the final results of joint activity by setting this payment mechanism in motion.

Access to modern technology is still one of the priorities of the foreign economic policy of developing countries. Therefore, it is not surprising that the FEPZ's in these countries were originally associated with high hopes. They were expected to serve as a kind of bridge for the

introduction of the technology of Western firms into the national economy. Soon, however, it became clear that the functioning of several separate production units, even if they are state of the art, on the territory of a country is not enough to raise the overall technological level of its economy. Pessimistic estimates of the contribution of foreign firms to the technological development of Third World countries were expressed in the UN report on "Transnational Corporations and Technology Transfer."<sup>17</sup> Similar conclusions were reached by the authors of several special studies.<sup>18</sup>

The reasons for this are fairly obvious. Technological secrets are among the "invisible assets" on which the strength of today's TNC's is based. "Technology, particularly if it has been developed independently, is an exceptionally important source of superiority in competition for multinational corporations," one lengthy study of the dissemination of technology says.<sup>19</sup>

It is clear that the TNC's attach exceptional importance to the protection of their intellectual property when they assess foreign investment options. Surveys of the managers of large corporations testify that they have the least confidence in the system of license protection in developing countries and states with centralized economic planning.<sup>20</sup> Because of this, and also for the purpose of reducing the cost of the patent protection of their technological rights abroad, the TNC's prefer to disseminate R & D results through intraorganizational channels within the network of the companies under their control. This is corroborated by the data of the International Organization of Intellectual Property: In 1981 only 7.2 percent of all foreign patents registered that year were recorded in developing countries, and only 5 percent were in socialist countries.

The idea of the intraorganizational use of R & D results suggests that the TNC's affiliates in developing countries, including those in free zones, are established not to serve as the center for the dissemination of the latest technology but, rather, to secure maximum protection for scientific-technical and managerial "secrets."

Economic literature usually mentions two ways in which companies operating in free zones can promote the spread of the latest technology and modern management in the host country: the training of national personnel and the organization of cooperation with local enterprises. It is easy to see, however, that both correspond little to the nature of the FEPZ as an economic entity.

As we have already said, one of the main prerequisites for any zone in a developing country is the existence of cheap but disciplined and hard-working manpower. These qualities meet the requirements of many industries—from the textile industry to the production of semiconductors. The zones provide particularly favorable opportunities for simple assembly-line production. The low proportional expenditures on the creation of jobs in free zones—under 2,000 dollars per job—indicate that foreign firms are making this choice. This



does not mean that the production units transferred to the zone are necessarily obsolete or labor-intensive. The process of division of labor means that certain operations can be singled out, even in units using state-of-the-art technology, for the profitable use of cheap unskilled or semiskilled labor. Most of the hired personnel of enterprises in the free zones are engaged in the simplest operations, which they can master within a few weeks. Foreign companies have no interest in improving the skills of their workers. In fact, if the cost of labor rises (as it did, for example, in South Korea), they begin migrating to countries where wages are still low. The companies in the zones do not make any special effort to keep manpower, as is often the case with highly skilled personnel. Many of the workers are hired on month-to-month or even day-to-day contracts. The high turnover rate, however, is no indication that the zones are "nurseries" of trained personnel for the national economy. First of all, the skills they acquire have no intrinsic value outside the specific technological process. Second, most of the workers are women, who devote themselves completely to housework after marriage. Therefore, it is not surprising that the author of a study of the technological implications of foreign direct investment in South Korea arrived at the conclusion that "there are no signs of the diffusion of technology when workers and technical personnel leave the firms established by foreign capital for jobs in other firms."<sup>22</sup>

The concept of "cooperative ties" presupposes that TNC's placing orders in local enterprises and demanding efficiently executed deliveries on schedules will force the suppliers to modernize their production and bring it up to world standards. Once again, however, the facts refute this assumption. The results of a study of 33 enterprises in three export zones in the Philippines and Malaysia indicated that almost 70 percent of the enterprises there obtained less than one-tenth of all the raw materials and components they used from local suppliers.<sup>23</sup> In 1978 the foreign enterprises in the Penang FEPZ (in Malaysia) imported 87 percent of their raw materials from abroad, bought 10 percent from other firms in free zones, and obtained only 3 percent in the local market outside the zones. The percentage of local purchases by enterprises producing electronics is particularly low. Furthermore, even in Sri Lanka, where most of the foreign enterprises in the zones manufacture clothing, local suppliers have only a small share of their business. They mainly provide them with packaging materials or perform auxiliary services. Summing up the relations between local and foreign firms in the developing countries, Oman concludes that "the role of local suppliers is growing more slowly than the role of foreign firms producing components for parent companies or other branches of their corporations. The augmentation of the role of local suppliers has been particularly slow in high technology branches."<sup>24</sup>

The TNC's operating in FEPZ's in developing countries prefer to use other international companies as suppliers and avoid investing capital in the production of local

subcontractors in the belief that the improvement of the quality of their products will require unjustifiably high expenditures. The reluctance to rely on local firms is also part of the global strategy of the TNC's. In the hope of keeping their capital highly mobile, they avoid long-term contracts with local firms. If a corporation wants to retain its ability to transfer production quickly from one country to another, it prefers to deal with suppliers who are also operating on the international level. There are two factors at work here: the possibility of acquiring crude resources and materials of stable quality in any part of the world, and the possibility of minimizing expenditures on the legal protection of innovative technology.

Most of the developing countries are distinguished by a high rate of perceivable and hidden unemployment. For this reason, there are special hopes that the FEPZ will create new jobs. To some extent, these hopes are justified. According to UN data, 1.3 million people were working in FEPZ's by the middle of the 1980s.<sup>25</sup> The effect of the zones on employment, however, is severely limited by the following factors: The demand for labor is still a function of foreign capital and is therefore unpredictable and unstable; the manpower used in foreign enterprises generally has a specific sex and age structure (with a prevalence of young single women), and other segments of the population remain outside the gates of these enterprises; because of the limited lateral integration of zonal and local enterprises, increased employment in the former has only an insignificant multiplying effect on the latter.

One interesting fact warrants closer examination: The "portrait" of the typical employee of an enterprise in an FEPZ has undergone virtually no changes in the last 20 years. It is a woman between the ages of 17 and 24 from a rural community who has graduated from high school but has no special professional training. Her wage constitutes a large portion of the total income of her family, and this makes her compliant. The stability of requirements on the quality and structure of manpower in the FEPZ's testifies that revolutionary innovations in industrial technology have not affected the TNC's, which have steadily made their investments with a view to the cheapest and least protected segment of the labor reserve.

There are many publications in which the working conditions in free zones are criticized severely. A BUSINESS WEEK correspondent discovered "horrors evoking memories of capitalism in the last century" in the Chinese free zones: child labor and illegal overtime work. An official investigation by Chinese authorities revealed numerous cases in which little girls of 10 were working 14 or 15 hours a day for around 10 dollars a month.<sup>26</sup> It is indicative that the Chinese officials decided to ignore the infractions after the foreign investors threatened to move their enterprises to Thailand.

Some publications have said that working conditions in the free zones cannot be examined in isolation from



working conditions in the country as a whole, and that the local population's willingness to work at foreign enterprises is sufficient evidence that the workers get adequate financial compensation. A direct comparison of wage levels inside and outside the zones does not tell us much, however, because it does not take the intensity of labor at enterprises in the FEPZ into account. The important thing is not the degree to which wages in the zone correspond to the average wage in the country, but the degree to which it guarantees the worker's ability to reproduce manpower. In any case, the operations of TNC's in existing free economic zones prove that there is no reason to expect capitalist firms to employ the latest methods of "civilized" management in places where they can earn a guaranteed profit with such tried and tested methods as highly intensive labor and low wages.

In some countries the products of the FEPZ's represent a perceptible share of the total exports of the host country. The development of the electronics industry in Malaysia, where 90 percent of the products are manufactured in free zones, is an impressive example. Today Malaysia is the world's largest exporter of semiconductors. The income from electronics rose from 14.7 million Malaysian dollars in 1970 to 10 billion in 1989. Export statistics can be misleading, however, if they are used to measure the contribution of free zones to the foreign currency receipts of host countries. The low percentage of local components and the huge scales of imports mean that net foreign currency receipts are small. They are made even smaller by the repatriation of part of the foreign firms' income and capital, representing much of the added value created at enterprises in the FEPZ's. In all, the value added at these enterprises does not exceed 25 percent of the value of the items assembled there.<sup>27</sup> The report of an Asian regional task force on employment said that more than half of the added value was used for the payment of interest and profits in the beginning of the 1980s. In the textile industry in Sri Lanka, for example, the proportion accounted for by added value was 28 percent, but the amount deducted by foreign capital for dividends and interest on loans reached 68 percent of the added value.<sup>28</sup> Foreign currency receipts of host countries consist mainly of the sums paid to workers in the form of wages. In South Korea, Malaysia, and the Philippines these wages represent half of all the foreign currency receipts from the FEPZ's. This reaffirms the fact that the creation of the zones is a form of manpower export for these states. The significance of this source is limited from the very beginning because the minimum wage is built into the very idea of the FEPZ. The second largest source of foreign currency receipts for the host country is usually the electricity used by enterprises operating in the zones.

The spread of export zones in the developing countries testifies that they are considered to be beneficial there, but the benefits should not be exaggerated. At this time the only certain benefit is the contribution of the zones to the resolution of employment problems. There is no basis for the association of the success of the new

industrial countries in Southeast Asia with the operations of FEPZ's. To reach their present industrial strength, they had to go through a lengthy period of extensive and explicit government intervention in the economy, accompanied by the concentration of forces in priority fields of development and the coordination of economic maneuvers. "Within the open economic borders," one work on Singapore says, "there was a government engaged in broad-scale indicative planning and establishing many large state enterprises."<sup>29</sup> When American Professor Alice Amsden analyzed the lessons the East European countries could learn from Southeast Asia, she wrote that "without government intervention and control, free markets only stifle—with substantial social losses—the ability (of national enterprises—A.K.) to compete.... When we advise the granting of freedom to foreign investors, we must not forget that many developing countries without a mechanism to protect them from foreign capital lost more than they gained."<sup>30</sup>

The experience of the developing countries puts the effectiveness of free export zones in question from the standpoint of the dissemination of advanced technology and management techniques, the training of manpower, the enhancement of the quality and technical level of the products of host countries, and their promotion in the world marketplace. We have to take all of this into consideration. Because the creation of these zones is a business transaction, we must decide exactly what will attract foreign capital to these zones. Obviously, the main thing will be access to cheap labor. The country has the prerequisites for this. As a speaker in the discussion group on foreign economic relations at an all-union applied science conference said, manpower in the USSR is cheap even in comparison with developing countries.<sup>31</sup> In a regulated market economy the ideological obstacles impeding trade in manpower will obviously be removed, but we will still have to decide whether the export of manpower is better than the export of the crude oil or timber on which our foreign trade has been based.

Some articles in the Soviet press have remarked that the known foreign models of free export zones will need some adjustment in the Soviet Union and that zones of the Soviet type should concentrate first on filling the domestic market.<sup>32</sup> It is not enough to simply declare our priorities, however, because foreign investors also have to have an interest in them. Japanese and American capital has not been particularly active in the special zones in China, which were also conceived as a "bridge" between the world and domestic markets and were equipped with the necessary set of privileges of all types. There are many reasons for this. They could be viewed as a series of coincidences, but it is probably more accurate to recognize that the FEPZ has its own internal logic and functions as an economic entity in accordance with this logic. We must coordinate our expectations with the actual capabilities of the free zones from this standpoint. In any case, we must not ignore the conclusions of the authors of one of the first basic studies of this phenomenon, who wrote that the free export zones represent

industrialization subordinated to the interests of the self-aggrandizement of foreign capital.<sup>33</sup>

#### Footnotes

1. See, for example, IZVESTIYA, 27 December 1989, p 2.
2. See, for example, ARGUMENTY I FAKTY, No 19, 1990, p 15; IZVESTIYA, 27 June 1989, p 3.
3. For a more detailed discussion, see R. Bromley and J. Rees, "The First Five Years of the Swansee Enterprise Zone" (REGIONAL STUDIES, Oxford, 1988, vol 22, No 4).
4. See F. Froebel, J. Heinrichs, and O. Kreye, "New International Division of Labor," Cambridge, 1980, p 306; "Transnational Corporations in World Development," New York, 1988, p 170.
5. Descriptions of this kind of the special economic zones can also be found in Soviet literature. These zones "set a standard for the national economy in the organization of efficient high technology production. Modern methods of production management on the level of the whole firm, progressive marketing methods, and so forth are used extensively in them. They also serve the national economy as a personnel training ground" (Ye.A. Yakovleva, "Smeshannyye obshchestva v praktike stran-chlenov SEV" [Mixed Companies in the Practice of CEMA Countries], Moscow, 1989, p 144).
6. A. Basile and D. Dermiles, "Investing in Free Export Processing Zones," Paris, 1984, p 20.
7. F. Froebel, J. Heinrichs, and O. Kreye, Op. cit., p 297.
8. R. Warr, "Export Processing Zones," Canberra, 1988, p 11.
9. SOTSIALISTICHESKAYA INDUSTRIYA, 30 November 1989, p 3.
10. A. Basile, "Financial Policy, Economic Routine, and Regulating Structure in Free Economic Zones. Report at International Seminar," Moscow, 1989, p 4.
11. S. Holland, "The Global Economy," London, 1987, pt IV.
12. Many data illustrating this practice in the developing countries can be found in Soviet literature. A study of several joint ventures in the USSR prior to the USSR Government resolution of March 1989 (No. 203) on the possibility of terminating foreign economic contacts in the event of unfair competition, revealed that prices of equipment purchased from the foreign partner were as much as 40 percent higher than the prices in trade between independent contractors.
13. J. Hines and G. Hubbard, "Coming Home to America," Cambridge, 1989, pp 23-24.
14. "Multinationals Beyond the Market," Sussex, 1989, pp 120, 121.
15. C. Oman, "New Forms of International Investment in Developing Countries," Paris, 1984, p 69.
16. P. Warr, Op. cit., p 30.
17. "Transnational Corporations and Technology Transfer," New York, 1987, pp 33, 35.
18. See, for example, N. Campbell and P. Allington, "China's Business Strategy," Oxford, 1988; "China's Special Economic Zones," Oxford, 1986.
19. G. Bertin and S. Wyatt, "Multinationals' Industrial Property," Worcester, 1988, p 23.
20. See, for example, P. Telesio, "Technology Licensing and Multinational Enterprise," New York, 1979, p 58; R. Robinson, "The International Transfer of Technology," Cambridge, 1988, p 38.
21. G. Bertin and S. Wyatt, Op. cit., p 117.
22. "Joint Ventures in Asia," Munich, 1983, p 219.
23. R. Maex, "Employment and Multinationals in Asian Export Processing Zones," Geneva, 1983, p 39.
24. C. Oman, Op. cit., p 48.
25. "Transnational Corporations in World Development," p 170.
26. BUSINESS WEEK, 31 October 1988, pp 16-17.
27. THE CTC REPORTER, 1986, No 21, p 55.
28. R. Maex, Op. cit., p 38.
29. H. Hill, "Pang Eng Eng. Technology Exports from a Small Very Open NIC: The Case of Singapore," Canberra, 1989, p 2.
30. INTERNATIONAL HERALD TRIBUNE, 10 April 1990, p 4.
31. SOTSIALISTICHESKAYA INDUSTRIYA, 30 November 1989, p 3.
32. IZVESTIYA, 17 June 1989, p 3.
33. F. Froebel, J. Heinrichs, and O. Kreye, Op. cit., p 292.

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## Deideologization of International Relations and Latin America

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[Text]

### I

The term "deideologization" has already found a lasting place in our political vocabulary. Whereas it was first used in reference to international relations, now there is an increasingly evident need to deideologize the country's economy, machinery of state, etc.

This seems to be easier to do in foreign policy. First of all, the reordering of foreign policy priorities does not entail the restructuring of the mechanism of economic management, which is closely connected with the power structure. Second, this reordering was made necessary by the exacerbation of domestic problems, creating the urgent need to begin living within our means. Finally, the dynamically changing international situation has left little room for East-West confrontation.

On the surface, everything seems to be clear and simple. Ideological points of reference have to be eliminated from foreign policy practices, and so do approaches based on comparisons of "us and them," "friends and enemies," etc. Ties of friendship between states should not be the result of the adherence of their ruling circles to a specific ideological doctrine, but of actual correlations of political and economic interests. The ideological aims of ruling parties should not influence intergovernmental relations. To what degree, however, is this really possible? After all, it would probably be impossible to completely exclude the influence of ideology in international affairs. Political sympathies and ideological agreement are bound to affect the policies of governments. It is probably a matter of proportion and of their interaction with national interests.

There is probably no general rule governing the necessary proportions, especially in view of the fact that ideological precepts usually influence the very perception of national interests. In the time of Stalin and Brezhnev, international ties were ideologized to the maximum. This is the reason for the confrontational behavior, intolerance, and messianism that were part of the country's approach to the outside world. Even then, of course, the reasonable and sensible approach, based on the acknowledgement of international realities, was present to some extent, and this is attested to by the Soviet-American detente of the middle of the 1970s, the Helsinki accords, and several other developments of this kind. The main problem was the absence of mechanisms guaranteeing a connection between foreign policy and national interests and excluding the severance of this

connection by ideological restrictions. The latter were often a cover for the completely tangible interests of ruling elites.

In any case, the construction of a rule-of-law state presupposes the deideologization of the main spheres of government activity, including international relations. This could probably be achieved by creating mechanisms allowing the civilian society, including its representative bodies, to monitor the choice and implementation of foreign policy decisions. In this case, these decisions will be more likely to reflect the interests of all the people rather than a specific political force. This is all the more important now that the country is making the transition to a multi-party system.

Several other difficult questions also have to be answered. After the Soviet Union has announced the deideologization of foreign policy and has begun carrying this out, to what degree can and should the process be conditional on similar actions by the other side—the United States? Would it be worthwhile to act on the basis of strict parity in this sphere as well, or would it be better to "break away" and thereby motivate former adversaries to follow our lead? It appears that our leadership in this sphere, which was displayed, incidentally, by the USSR in its reaction to the events in Eastern Europe, will not only enhance the country's international prestige considerably, but will also motivate the other main protagonists in world politics to deideologize their approaches.

It is obvious that this is a contradictory and complex process, particularly in view of the fairly high level of interdependence in USSR and U.S. policy during the present transition period. Nevertheless, in view of the country's requirements for development, stemming from the severity of accumulated problems, the deideologization of foreign policy is also becoming necessary on the domestic level, and it could help the country begin "living within its means" and could do much to guarantee national security.

Our relations with the states that were regarded for decades as our politico-ideological and military allies raise another extremely important question. Should the Soviet Union be guided, for example, by common international standards and join other countries, including its former "opponents," in denouncing violations of human rights in one of those states, or is it more important for it to uphold the "traditions of friendship and cooperation"? The following argument is sometimes cited in favor of the latter: "They supported us in the past, even when we were wrong." Does this mean that it is our turn to repay them "in kind," supporting them when they are wrong?

This is a fairly ticklish subject. It is also a question of the political and economic profitability of the ally relations that took shape under absolutely different international conditions; a question of our responsibility for the "socialism" our allies built, largely by following our

"recipe"; and it is a question of the ethics of international relations. We will return to this later. At this time I simply want to stress that deideologization will probably be incomplete and largely superficial if it is confined to the reinforcement of the policy of peaceful coexistence (although this is certainly important in itself) and does not extend to our policy on alliances and to all aspects of national foreign policy in general. In that case, we could hardly expect it to correspond completely to our national interests.

Deideologization had trouble "catching on" during the 5 years of perestroika. It immediately became the subject of heated controversy among "our friends" in the "Third World." Many of them simply could not accept the idea (although it seemed to be only a matter of intergovernmental relations, and not international relations as a whole), seeing it as a renunciation of the fight against imperialism and of class struggle in general. The revolutionary reorganization of society ceased to be the main and decisive goal of struggle. Intransigence and uncompromising conduct in relations with the "enemy," both internal and external, gave way to an emphasis on common human values, on coexistence, and on the survival of the nation, the region, and all civilization. The change of coordinates was quite radical, and many had an extremely sensitive reaction to it. The resistance of the new political thinking in the "Third World" countries, including traditional allies like Cuba, was quite natural and understandable, and now no one has the right to expect, much less demand, some kind of unified stance, as was the case so many times in the past.

## II

How important is the issue of deideologization in Latin America? In this region it can probably be viewed primarily within the context of the alleviation of the pressure of "East-West" confrontation on international relations in the Western Hemisphere. It was under its influence, after all, that a confined system of exclusive relationships, based on the hegemony of superpower interests, ideological control, the limitation of autonomy, the practice of intervention, and so forth, took shape in the region and existed for several decades. There were only two such distinctive systems that took shape around the superpowers in the postwar period—Eastern Europe and Latin America (or, more precisely, only the Caribbean zone and Central America). Although any comparison of these two regions is highly conditional, during the period of the prevalence of bipolar structures, the position of these two radically different regions, despite the widely differing degrees of superpower control over them, was the same in many respects. Whereas the disintegration of this system in Eastern Europe took just a few months and, furthermore, was not resisted by its "center," the process began much earlier in the Western Hemisphere and took much longer.

The "ideologization" of international relations in the Western Hemisphere began almost simultaneously with

the outbreak of "cold war," which was projected onto Latin America from outside in many cases.

During the division of the world into two inimical camps, which minimized this region's freedom of choice, Latin America was drawn into the "East-West" power scheme. For the sake of objectivity, we must admit that this was not only the result of strong pressure on the part of the United States, which was trying to strengthen its flanks in the atmosphere of intense military-political confrontation with the Soviet Union. The governments of the states in the region, most of which were military-oligarchic regimes in those years, were glad to use the atmosphere of "cold war" to suppress the democratic movement in their own countries. Stalin's foreign policy in Eastern Europe, especially the "iron curtain," also had a substantial impact on public opinion in Latin America. The Caribbean missile crisis of 1962 also played its role. The unexpected materialization of the real threat of nuclear conflict was associated with the appearance of the first socialist state in the region.

The "East-West" overview of events was a permanent feature of inter-American relations in those years and was even reflected in their legal status. Nevertheless, it did not become the cementing link that was supposed to connect the "two Americas" together reliably. During the new phase of development which began in the region in the 1960s and which brought about major changes in the sociopolitical structure and the economy, the Latin American countries' sphere of foreign policy interests became much broader. At this same time, the bipolar structure of the world gradually became less rigid. Centrifugal tendencies grew stronger in both of the inimical camps. In the socialist camp—even under the conditions of the harsh discipline of that time—the first signs of dissidence appeared, and there were attempts to break through the "iron curtain" (Hungary in 1956 and Czechoslovakia in 1968). The Soviet-Chinese conflict in the 1960s essentially signaled the end of the once monolithic unity of the socialist world. In the other camp, there were new centers of economic power—Western Europe and Japan—and these gradually began crowding the United States out of some world markets.

In this way, international relations became increasingly multidimensional, and this also began to undermine the main power line of world politics in the first postwar decades—"East-West"—and gave the Latin American states more foreign policy autonomy.

The confrontation between the East and the West severely limited Latin America's possibilities for social and political choices. In 1954 the uncompromising "ideological control" had already led to armed aggression against a sovereign country (Guatemala). Ruling circles in the United States saw the internal reforms of the government of J. Arbenz (1950-1954) as "communist infiltration of the Western Hemisphere." Of course, the intervention in Guatemala can be viewed in a broader context. In a certain sense, it was part of the

"exchange of strikes" by the superpowers as they instituted "law and order" in their zones of influence. In an extremely conditional sense, we can point to a certain connection between the actions of the two superpowers in Latin America and Eastern Europe in the postwar years.

The wide range of interpretations of ideological threats, depending largely on the political tastes of each different American administration, as the U.S. armed intervention in the Dominican Republic in 1965 demonstrated so conclusively; the constant danger of meeting this definition; and, finally, the obvious conflicts with the traditions of Latin American diplomacy—these and other factors led to the situation in which the Latin American countries began the deideologization of international relations in the Western Hemisphere at precisely that time.

It was in the late 1960s and early 1970s that Peru, Chile, Venezuela, and other states upheld the principle of "ideological pluralism," which was supposed to lie at the basis of the inter-American system. We remember how this term grated on the ears of our ideological censors. It would seem that it should have been applauded, even within the framework of the bipolar view of the world. After all, Latin America had effectively declared the acceptability of the existence of states with a different social order in the region and, what is more, was unequivocally in favor of lifting the diplomatic blockade in the region of our ally—Cuba. The problem was the very word "pluralism." Within the framework of "ideological pluralism," which was recorded as a legal standard of the inter-American system in 1975 in spite of opposition, the states of the region defended such principles as non-intervention, respect for sovereignty, and freedom of choice. This was also an attempt to cultivate political tolerance in international relations.

When we speak of our intellectual authorship of the new political thinking, and especially when we somewhat haughtily discuss the reasons why other countries have accepted or rejected it, we must not forget that we arrived at many points along this new line much later than some other regions, and that these regions, traditionally described as peripheral, were much closer to it in their foreign policy practices than we were.

The declared principle of "ideological pluralism" could not change international relations in the Western Hemisphere radically. There were recurrences of "ideological borders," especially when rightwing military dictatorships were established in the region in the 1970s and waged a struggle against "internal enemies with outside support." "Ideological pluralism" simply could not penetrate such fairly confined subsystems of international relations as Central America at that time. Finally, the principle was only acknowledged by the United States in the conditional sense, and it never became part of its diplomatic practices at that time.

Furthermore, even though international relations in the Western Hemisphere were unique and self-contained in many respects, it would have been difficult to separate them from the global context, in which the economy may have been more multipolar, but the military-strategic sphere was still dominated by the two superpowers. In addition, it was in the 1970s that regional conflicts began to occupy a more prominent place in the Soviet-American "balance of power." Although they still "had not arrived" in Latin America in that decade, the United States was keeping a vigilant eye on the region even then.

The Central American conflict seemed to have made the extension of the new round of "East-West" confrontation, stemming from the aggravation of Soviet-American relations, to Latin America unavoidable. The establishment of a leftist regime in Nicaragua, which defined its political sympathies unequivocally; its support of partisan movements in neighboring countries; the appearance of Cuban military advisers and Soviet weapons in Nicaragua; and the fierce and extremely alarmist reaction of the United States to the revolutionary processes in the subregion—all of this once again faced Latin America with an extremely simple and already familiar choice, especially since the leading countries of the region were on the verge of financial collapse because of the debt crisis, and this, combined with the strong political pressure exerted by the Reagan administration, which would not tolerate any dissension, seemed to make Latin America quite controllable.

This, however, did not occur. As we know, the Latin American states did not join the neoglobalist undertaking as junior partners and actually suggested, for the first time in the postwar years, an alternative to the American plan for the settlement of the conflict that was posing a direct threat to U.S. national security interests.

There is no need for any detailed discussion of the twists and turns of the Contadora process, Esquipulas, and so forth, because they have already been elucidated sufficiently. In this case, we should only stress that the Contadora group, acting in an extremely charged and "ideologized" atmosphere, made an original attempt to deideologize the regional conflict and take it out of the context of "East-West" confrontation. At that time, when both of the hostile "camps" in Central America were concentrating on building up their potential strength, this was not only difficult, but also virtually unrealistic. The militarization of the region was progressing at full speed. Like a cancerous tumor, it even spread to such oases of democracy as little Costa Rica.

In this connection, a few words should be said in defense of the Contadora group, which has been criticized by several Latin American authors for being ineffective, "theatrical," etc. In the atmosphere of that time, when the situation was essentially unwinnable, and the main parties in the conflict were not inclined to listen to each other, four Latin American countries displayed maximum political tolerance and tried to rise above their own political sympathies, particularly by recognizing the

right of a "Marxist-Leninist" regime to exist in direct proximity to their own borders. They tried, although unsuccessfully, to elaborate a special code of behavior which, in the opinion of its authors, would have made the Sandinista revolution compatible with U.S. national security interests. All of this offers more proof of the profound changes in the foreign policy of the Latin American states.

The Central American conflict provides much food for thought in connection with the subject matter of deideologization, particularly in view of the fact that it was originally influenced strongly by the "East-West" confrontation. The appearance of a revolutionary regime with a socialist orientation radically changed the status quo in a region of exceptional geopolitical importance to one of the superpowers (namely the United States). In view of the fact that this occurred at a time of increasingly intense confrontation in Soviet-American relations, the friction caused by the very fact of revolutionary Nicaragua's appearance was a foregone conclusion, and the Sandinistas probably had no special illusions with regard to this.

On the other hand, the experience of Cuba, a small country which had "done battle with the giant," was close at hand, so to speak. At that time, it seemed to clearly indicate that the model of a "besieged fortress" with a precisely defined "enemy image" offered extensive possibilities for the construction of a mobilized society, living in a paramilitary state, and created more favorable opportunities for the revolutionary regime to fight its own political opponents within the country and receive massive material and political support from the USSR and other "Eastern bloc" countries on the foreign policy level. This model, in all probability, was much closer to the Sandinistas than their declared three "pillars" of policy: non-alignment, political pluralism, and a mixed economy.

Obviously, it was extremely difficult for the Sandinistas to stay outside the boundaries of "East-West" confrontation in the beginning of the 1980s, but their own policy did much to make Nicaragua one of the "hottest spots" of the confrontation. The close contact with partisan movements in neighboring countries and the support of these movements, for example, gave the Sandinistas' opponents an excuse to accuse them of planning the regionalization of the rebel movement in Central America. The presence of Cuban military specialists in Nicaragua, whose numbers were considerably in excess of the number of American military advisers in El Salvador, was viewed as proof that Nicaragua had become a Cuban support point in this region. Soviet military shipments, including those made through our allies in the "Eastern bloc," were given the same kind of interpretation. Even the American hawks, however, never said that the USSR was pursuing any direct military-strategic goals in the region. On the whole, the opinion of Soviet policy in Central America was that it evinced restraint and an effort not to break certain specific "rules of play" and not to let the matter reach

the point of open confrontation with the United States. When Georgetown University Professor R. Call described the policy of the Soviet Union in this region, he said that this great power was having a quite indirect effect on events and was not participating in them directly, although it did have an interest in creating "military bastions" like Cuba and Nicaragua in direct proximity to the United States to influence the situation autonomously by supporting the partisan struggle.<sup>1</sup>

Call's point of view is far from indisputable, but he was probably quite accurate in pointing out one of the distinctive features of Soviet foreign policy in the Brezhnev years—the effort to keep up with our main strategic opponent by using any opportunity to shift the global balance of power in our favor. The result was that USSR policy frequently did not correspond to the country's political and economic capabilities and even contradicted our own national interests.

There is no question that the Sandinistas were experiencing strong U.S. military-political pressure from the very beginning. The war of nerves that was launched against them, the constant discussions in American ruling circles of the possibility of direct aggression and, finally, the appearance of the contras, representing armed opposition to the regime, all created the need to defend the revolution and had a significant impact on the political thinking of the young Sandinista leadership. Nevertheless, we have to admit that the revolutionary regime in Nicaragua has to accept much of the responsibility for generating its hostile surroundings, which eventually became, just as it had in Cuba, an essential element of the new social structure.

Could the Sandinistas have acted differently? Under those conditions, probably not. In fact, they probably had to go through these experiences to learn that the model of the "mobilized" society with clear signs of dictatorship (described as "revolutionary-democratic" just a few years ago) could only result in a deadlock, especially when the retention of political power became an end in itself. As we can see, authoritarian systems do not withstand the test of time even in the hothouse conditions that are created for them by the low level of political culture and backward social structures of the "Third World." In this respect, the election defeat the Sandinistas suffered in February 1990 can be viewed as a result of the global tendency toward democratization and the dismantling of confined totalitarian systems, as the events in Eastern Europe demonstrated so clearly.

### III

The deideologization of international relations in the Western Hemisphere will depend largely on the evolution of Soviet-American relations and on whether the predominance of confrontational elements gives way completely to the common search for a balance of interests. It seems that this balance should be based on the completely natural asymmetry of the actual interests of the two states in the Western Hemisphere. It is

obvious, for example, that the national security interests of the United States and USSR in Central America and the Caribbean are almost incomparable, but this is not all. The confrontation has come to an end, and it is time to give up the search for "weak links," the efforts to take advantage of conflicts, and the simple desire to "make trouble" for the other side. In other words, the idea that "when things are worse for the United States, they are better for us," by which the makers of Soviet foreign policy were guided for decades, and which had an indirect effect on Soviet theories about the "Third World," no longer corresponds to the realities of the increasingly multidimensional and interdependent world and could even have a boomerang effect over the long range.

The problem of the traffic in illegal drugs is one example. It would seem that if we were still guided by the principle mentioned above, we could only watch quietly as the drug trade aggravated relations between the "two Americas" and feel happy that the United States had acquired a problem literally next-door that was posing an increasingly serious threat to its national security. This, incidentally, is not that far removed from the idea of the "drug war against imperialism." The danger of the spread of these drugs, however, is becoming a global problem. The Latin American drug center has penetrated the Old World along with the Asian drug trade, and the latter is already doing business in the Soviet Union. The drug trade is acquiring an international structure, connecting various countries and regions in a single entity. Under these conditions, it would probably be impossible to observe the situation without getting involved.

There are many obstacles on the way to the deideologization of USSR foreign policy in Latin America and the transfer of this policy to the foundation of the new political thinking. Only the first steps to surmount these obstacles have been taken during the 5 years of perestroika. This has been due to the tenacity of old approaches, sluggishness, and delayed reactions to events, particularly in such "hot spots" as Central America, where the situation has changed quite dynamically in recent years and has required energetic efforts to exert purposeful influence on a conflict instead of simply responding to it.

The result was a fairly ambiguous situation in 1987-1988, when the declared principles of the new political thinking were not implemented consistently and turned into something like a boomerang. Suffice it to say that one of the main authors of the Esquipulas plan, President Arias of Costa Rica, had to urge the USSR to bring its foreign policy in Central America in line with the declared principles of the new political thinking. The reproaches, in our opinion, were largely warranted, because the general declarations of support for the Conadadora process and then for the Guatemala accords were not followed by any kind of practical steps.

It was not until the beginning of 1989, when the USSR stopped shipping arms to Nicaragua, that all of us

learned what a strong impact even this essentially belated reaction could have and how much this could augment the capabilities of Soviet foreign policy.<sup>2</sup>

Obviously, this was not simply a matter of the tenacity of old approaches. The set of commitments to our allies in the region, Cuba and Nicaragua—commitments which were inconsistent with the new political thinking—also put a heavy burden on the updated Soviet foreign policy. This applies in particular to the large-scale military shipments, which were hardly justifiable at a time when the world community was making such a great effort to resolve regional conflicts.

There is no question that some influence was exerted and still is being exerted by the resistance of our military-industrial complex, which is inclined to act like an agency not under the jurisdiction of supreme government bodies, even abroad, in the pursuit of its own narrow departmental goals, which are contrary to foreign policy aims.

It is probable that something else plays an even more important role in USSR relations with "ideological allies." How can we restructure our traditional ties with these states, which regarded us for a long time almost exclusively as donors? Recently we have heard frequent appeals for the resolute revision of these relationships, advising something just short of the severance of these ties, because of the USSR's extremely limited economic capabilities and because some of our allies, especially Cuba, not only refused to accept perestroika and democratization, but did not even bother to conceal their negative attitude toward them.

Even in this case, we cannot ignore our commitments to our allies—for example, our responsibility for the signs of crisis in the Cuban economy. After all, it was our recipe that was followed there. The mechanism of cooperation with these countries, especially in the economic sphere, certainly has to be brought in line with our present capabilities. In any case, this matter deserves serious consideration and, in particular, the attention of the USSR Supreme Soviet. Abrupt alienation, "door-slamming," and other such responses are unworthy of a great country's prestige and will seem to involve the outright use of force, which is hardly compatible with the principles of the new political thinking.

Nevertheless, we must realize that USSR foreign policy in Latin America is moving away more and more from the model of earlier decades. The appreciable changes in our approach are attested to, for example, by our position on the American-Panamanian crisis of 1988-1989. If this crisis had broken out in, for instance, the beginning of the 1980s, it is quite probable that it would have been seen as another "weak link," and this would have been followed by steps to forge closer ties with the Noriega regime, to establish diplomatic relations with it, and so forth. Luckily, this did not happen. With the exception of publications in the Soviet press sympathizing with Noriega, we had no response to this crisis.



#### IV

At the beginning of the 1990s American-Cuban relations were probably the most highly "ideologized" link of international relations in the Western Hemisphere. Sometimes it seems that time and changing international realities have absolutely no effect on these relations. Today this is probably the most static area of intergovernmental conflicts, with few parallels in contemporary world history in terms of duration. The atmosphere of mutual hostility, the intransigence of positions, and the reluctance to take the first step toward the normalization of the situation or to seek ways of more or less civilized coexistence—all of these features are characteristic of U.S.-Cuban relations.

There is no question that the "historical memory" of the ruling elites in both states was influenced profoundly by the events that took place at the time when the American-Cuban conflict was still taking shape: the attempts to overthrow the Castro government with the aid of the American administration, the Caribbean crisis, the economic and political blockade of Cuba, and the Cuban leadership's vigorous efforts to stimulate the partisan movement in Latin America in the 1960s. It was a truly complex mixture of factors. A clearly defined "enemy image" took shape in the mentality of ruling circles and in the public mind in both states. For Cuba the northern neighbor turned into the "evil empire" and the "imperialist aggressor" responsible for all of the region's problems, from its foreign debts and regional conflicts to the drug trade. The United States saw Cuba for decades as the main center of international terrorism in the Western Hemisphere.

Several distinctive features of the contemporary American political culture are fully reflected in its relations with Cuba and were manifested most vividly during the aggression against Panama in December 1989. The majority of Americans feel that the use of force to establish or restore "democracy" in another country is absolutely acceptable. "Forcible democratization," both in its extreme form—armed intervention—and in the form of political-diplomatic pressure, punitive economic sanctions, and so forth, has become one of the most popular and widely supported elements of recent American foreign policy.

It seems indisputable that this will eventually have the opposite effect, which could make its appearance much later and in completely unexpected forms. Furthermore, the drawbacks of this method of combating the trade in illegal drugs and "restoring democracy" in Panama are already apparent. Recently, for example, Latin American states have been increasingly cautious in their cooperation with the United States in the struggle against the drug trade, despite the Bush administration's considerable diplomatic efforts to smooth out the "sharp corners." The aggression that was undertaken for the purpose of apprehending a single individual suspected of having a connection to the drug mafia did not promote

Latin American confidence in U.S. policy, and constructive cooperation is probably impossible without this.

These features of U.S. policy have recently come to the fore in American-Cuban relations, and this was corroborated in March 1990 when a group of congressmen decided that stronger pressure should be exerted on Cuba through various channels for the purpose of overthrowing the Castro government.

It is obvious that this would be inconsistent with the commonly accepted standards of international law and would represent overt intervention in the internal affairs of a sovereign country. The historical experience accumulated by the world community testifies that democracy cannot be decreed, and it certainly cannot be imposed on others by force. It requires the proper internal conditions. In some cases, as in Eastern Europe, these conditions take a surprisingly short time to develop, but in others, as in the USSR and China, this takes much longer and is accompanied by conflicts, crises, and regression. In any case, however, this is a matter of internal processes, although the external factor also plays a role by either accelerating or complicating these processes.

The American legislators' concern about democracy should probably be displayed primarily in measures to create more favorable external conditions for it: in dialogue and goodwill missions, followed by the gradual expansion of contacts on the non-governmental level and the encouragement of foreign private business to show an interest in Cuba. The Cuban response would be favorable, judging by some remarks F. Castro made when he visited Brasilia in March 1990. Instead of this, however, friction over Cuba is being escalated deliberately, and the ruling regime is being threatened with economic ruin and political bankruptcy. Once again, the atmosphere of an external threat is being created, and, as experience has shown, this will lead unavoidably to stronger authoritarianism in the policy of the country's leadership.

The "enemy image" is firmly ensconced in Cuba and has become something like a tradition, an element of the political culture, which is frequently used as a means of mobilizing and consolidating the Cuban society. For several decades, I repeat, the policy of the United States toward Cuba promoted this to the maximum. Nevertheless, the two-dimensional scheme of "revolution or imperialism" is too crowded in today's world and leaves no room for all of the diversity of global realities. The "defense of the revolution" and protection of "socialist ideals" can become an end in itself and does not contribute to the search for the alternative patterns of socioeconomic development the country needs so urgently.

In the present situation, which is almost a stalemate, the American-Cuban conflict probably should become the target of international mediation, which is sometimes particularly effective in precisely this kind of altercation



and can promote the start of bilateral dialogue. This, in turn, could be the first step in surmounting the unnatural situation in which two states with such close historical, geographic, and other ties have become irreconcilable enemies.

No effort to mediate can be productive, however, unless both sides express the political will and preparedness to rise above mutual complaints and past offenses and rid themselves of the heavy "baggage" they accumulated in earlier decades. As a great power, the United States could take the first step toward the normalization of relations, especially since it also has considerable experience in this. The American-Cuban "mini-detente" of the late 1970s may have been brief, but it at least proved that the development of relations between these two states in a different channel was possible.

The events in the USSR and Eastern Europe are already having a perceptible effect on international relations in the Western Hemisphere. The changes in Soviet foreign policy, the renunciation of confrontational approaches to relations with the United States, the steps to resolve regional conflicts and, most importantly, the political tolerance of the disintegration of the once monolithic "Eastern bloc"—all of this has made the once common U.S. statements about the "Soviet threat" in the region groundless. As American political scientist L. Burns pointed out, the changes in the USSR and Eastern Europe have divested the United States of many of its traditional points of reference in Latin America, and now it is clutching convulsively onto the last vestiges of the "communist enemy"—Cuba, Nicaragua (before the elections), and the Salvadoran partisans. And, as Burns asks, what will happen when they disappear?<sup>3</sup>

The problem of deideologizing U.S. policy in Latin America does warrant serious analysis because it is directly related to this power's interventionist behavior in the Western Hemisphere. This is an extremely tenacious tradition. Now that interventionism has become part of the American political culture, it will persist until it becomes counterproductive for this country's interests in the region. This prospect can be seen within the context of the interdependence of the "two Americas" that began taking shape in the second half of the 1980s and depended largely on the degree to which Latin America would resist uncivilized political behavior of this kind. The very fact, however, that the ideological underpinnings of interventionism are disintegrating, in our opinion, is creating a new situation in the region.

It is possible that this could also create more U.S. tolerance for the revolutionary movement and leftist movements in general in Latin America over the long range, because it will not automatically see them as evidence of infiltration by the other superpower.

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Therefore, the deideologization of intergovernmental relations in Latin America had already turned into a foreign policy practice by the beginning of the 1990s.

The line of "East-West" confrontation is receding into the past, with the possible exception of the American-Cuban conflict. All of these changes are apparently irreversible. This process is already benefiting everyone or almost everyone. For Latin America this will mean much more autonomy in international relations. For the United States it will mean the gradual loss of the obsessive fear of expansion by the "Eastern bloc," threatening its national security. For the Soviet Union it will mean that its foreign policy can be brought in line more fully with the interests of national development and will make new approaches in relations with Latin American states possible.

#### Footnotes

1. "The Continuing Crisis. U.S. Policy in Central America and the Caribbean," Boston, 1987, p 59.

2. Especially in view of the fact that the defensive capabilities the Sandinistas had accumulated in the 1980s surpassed the fighting strength of the contras several times over, while the danger of direct U.S. military intervention became purely theoretical in the second half of the decade. Besides this, a ceasefire agreement between the Sandinistas and the rebels went into effect in March 1988.

3. CAMBIO-16, 22 January 1990, p 55.

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#### Radical Program in "Bermuda Quadrangle"

914M0004E Moscow MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA in Russian No 12, Dec 90 (signed to press 14 Nov 90) pp 94-95

[Article by L. Grigoryev]

[Text] The history of the compilation of the government and alternative programs of transition to the market came to an end in the beginning of September: The alternative program was submitted on the 1st day of the month, and the government program was submitted on the 11th. The political controversy over these documents began at that time. For 5 weeks the programs roamed the "Bermuda quadrangle": the president and his council, the USSR Supreme Soviet, the Supreme Soviet and Government of the RSFSR, and the USSR Council of Ministers.

The arguments were not confined to how the market economy could be achieved and what kind of market economy it would be. The main question of any revolution, including a market revolution—the question of power—could not be ignored.

As soon as the alternative program (the "500 Days" program) made its appearance, Russian officials insisted that the central government should retire while the "500 Days" program should go to work. On 11 September the

RSFSR Supreme Soviet ratified the alternative program. The Ryzhkov-Abalkin government defended this approach in principle. By submitting its own program to the Supreme Soviet, it kept the Gorbachev-Yeltsin program from becoming the "one" and "only" program and precluded its own imminent resignation.

The tactics of N.I. Ryzhkov's cabinet in the news media and parliament consisted in underscoring the danger of the union's collapse (although it was precisely this government's characteristic excessive centralism in relations with republics that compounded this threat). The government also warned of the danger of impoverishment (although it is its policies that are leading the country toward financial ruin). Criticizing someone else's program turned out to be quite convenient when it was impossible to defend its own.

The president tried—without any success, as it turned out—to avert a head-on collision between the union government and Russia. He supported the alternative program in parliament but tried to lessen the intensity of the situation by proposing a "compromise" (the document drawn up by Academician A. Aganbegyan and known as the "presidential" program).

In fact, the first "compromise" program was 99-percent based on the alternative program. Obviously, this did not please the central government. The USSR Supreme Soviet was not ready to make a final decision either. We can imagine how the people's elected representatives felt: This was the first time they had to choose between the proposals of the president and the premier, and on a matter of fundamental importance. This brings an incident to mind: At a meeting of the members of parliament with the authors of the programs on 14 September, a deputy asked G.A. Yavlinskiy, Russian deputy prime minister, who would be responsible for the results of the reform. Yavlinskiy implied that the union parliament would be responsible in either case, no matter which program it chose.

Of course, the deputies were in a difficult position, but another delay would have been extremely dangerous at that time. It was no coincidence that the "500 Days" program scheduled the start of the reform for 1 October. This was the last day budgets could be drawn up and agreements could be concluded for 1991 on a new basis. By postponing its decision, the USSR Supreme Soviet deprived the country of this chance.

One of the basic ideas of the "500 Days" program consisted in leading the country's economy out of its tailspin "before it hit the ground." In other words, there was to be no repetition of the Polish experience of the 1980s, when radical reforms were instituted at a time of severe crisis. Because of the government's stubborn resistance and the deputies' indecisiveness, however, this could not be avoided.

On 24 September the deputies voted to grant the president emergency economic powers, approved **all of the programs** in their possession on their first reading, and

advised that they be combined in some way by 15 October. This, however, was impossible. The government program called for administrative price increases (and the rapid growth of the budget deficit), while the alternative program envisaged dramatic financial recovery and the gradual institution of free pricing. In addition, the seriousness of the government's plans for privatization was questionable. Finally, in contrast to the government's program, the alternative program envisaged the radical augmentation of republic influence and changes in the structure and functions of the central government.

When the Russian leadership saw that the program could not be launched on 1 October, it moved the starting date up to 1 November. The USSR Supreme Soviet turned its attention to other matters. The president did not want to take the risk of a conflict and a change of government. For this reason, the next phase of the struggle—lasting until the end of October—was a counteroffensive by the Ryzhkov cabinet.

The results of the counteroffensive were apparent in the presidential ukase of 4 October, stipulating the obligatory use (during the reinforcement of economic ties) of the price lists drawn up in accordance with the decree of the Council of Ministers of 14 June 1988—i.e., the new higher wholesale prices. This, along with the statement in the ukase about the confiscation of excessive profits, constituted the ideology of the government program.

Administrative increases in retail prices were unavoidable, but the possibility of compensating the population for losses was questionable: The availability of these funds is debatable (the USSR Ministry of Finance itself has estimated the 1991 budget deficit at 340 billion rubles). The implementation of the government program followed the worst-case scenario from the beginning—price increases without compensation.

While the debates in the country's parliaments, the arguments in the press, and the political battles behind the scenes were going on, the possibilities for a quick transition to the market and for financial stabilization were rapidly disappearing. The public assumed that a compromise based on the "500 Days" would be implemented, but the government program had already been launched.

On 15 October the "combined" program was submitted to the union parliament. Once again (see the "Economic Survey" rubric in *MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA*, No 11, 1990), it consisted of statements by the planners of radical reform and the measures of Gosplan, the State Committee for Prices, and the State Committee for Labor and Social Problems. The government's fundamental requirement—price increases accompanied by partial compensation for the population—was barely satisfied. A new stage in the discussion of reform plans began: a search for "unanimity" with regard to an nebulous "conceptual" document. The problem with

this 66-page program is its preoccupation with current political problems instead of the country's orderly progression toward a normal market economy. The reference to a free hand for the republics is not serious, to say the very least: The transition will have to be carefully synchronized and supervised. The authors of the "500 Days" program expressed their fundamental views in a special statement (see KOMSOMOLSKAYA PRAVDA, 4 November 1990): We will not accept the blame for the destruction of our program. Russian Deputy Premier G.A. Yavlinskiy turned in his resignation—the first voluntary resignation for political reasons in our country.

The overwhelming majority of USSR Supreme Soviet deputies voted for the "Basic Guidelines for the Stabilization of the National Economy and the Transition to a Market Economy" at the end of October. This was a clear sign that the text was "acceptable" to all of them: the advocates of a real market, a quasi-market, and the present system disguised as a market. The political need for this kind of compromise will be a matter of interest to political scientists or even historians. The main result was that the radical program of transition sank in the "Bermuda quadrangle" of our domestic politics, and what floated to the surface in the spot where it disappeared was more discussion of the eternal question of how to satisfy the wolf's appetite while keeping the sheep safe. Other losses included the further disillusionment of the people and the confusion in the mind of the "man in the street." Now it will be even harder to convince people of the need for quick and radical reform.

The triumph of the main points of the government program will make the government completely responsible for the continuing collapse of the domestic market and the prevalence of barter transactions. People's attempts to protect the interests of their "own" republic (oblast, city, etc.) and the search for equivalence in the distribution of the dwindling supply of products will foster centrifugal tendencies in the country. Inflation is probably already out of control: It has been estimated at 18 percent this year, and next year we will probably approach the point of hyperinflation. The budget deficit will grow to unthinkable proportions. Part of the reason will be that the government will have to pander to populist feelings for the sake of its own survival and will consequently increase government spending while reducing taxes. I am afraid, however, that the triumph of the advocates of eternal compromise will turn out to be a Pyrrhic victory, and the main victims, as always, will be the citizens of a country in which the transition to a normal economy has been postponed once again.

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### Implications for European Economy

914M0004F Moscow MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA in Russian No 12, Dec 90 (signed to press 14 Nov 90) pp 113-117

[Article by Vladimir Yuryevich Korovkin, candidate of economic sciences and scientific associate at Institute of World Economy and International Relations, USSR Academy of Sciences]

[Text] The unification of Germany made qualitative changes in the situation in Europe. This has received extensive coverage in many recent publications in our country and abroad. The authors have concentrated on the political implications of this move, especially the inclusion of the territory of the former GDR in NATO's sphere of action. Much less attention has been paid to the fundamental change in its economic status, namely its membership in the EC. The article by German economists K. Lutze and M. Stelter should fill this gap.

The authors are completely justified in saying that the economic consequences of the unification of Germany, the introduction of the West German mark in GDR territory, and the GDR's dive into the waves of the market economy made its population overlook the fact that, at the time of its political unification with the FRG, it became part of a much more powerful economic organism—the European Community—which plans to make the move to the qualitatively new status of a single internal market by the beginning of 1993. The public is just becoming aware of this change now, and not only the public in East Germany, but in the rest of Europe as well.

### The Economy of the Former GDR in the Community

The organizational-legal mechanism for the inclusion of the former GDR among the EC members was far from simple. Its elaboration was a big headache for members of the Commission of the European Communities (CEC), especially in view of the refusal of the requests of Austria and Turkey for membership in 1989. The attachment of the GDR to the FRG on the basis of Article 23 of the latter's Basic Law made Article 237 of the Treaty of Rome on the creation of the EEC inapplicable because it stipulated the procedure for the expansion of the Community with third countries.<sup>1</sup> The CEC had a chance to plan a special mechanism for the inclusion of East Germany in the group, and this allowed it to adopt many special provisions and regulations, etc.

The original plan which was submitted to the CEC at the end of April 1990 in connection with the exceptionally rapid development of events, was revised and supplemented.<sup>2</sup> The result was the lengthy document that was approved at a CEC meeting in September and discussed every aspect of the matter in detail. Two basic objectives were upheld in the program and are discussed to some extent in the article by Lutze and Stelter. The first was the need to minimize transitional measures on the territory of the former GDR and to carry them out as quickly as possible, even if this should cause economic

and social difficulties. The second was that the inclusion of the GDR in the EC should not in any way impede the Community's progression toward the creation of a single internal market by the end of 1992 and give members any cause to fear economic domination by the unified Germany.

The effects of these changes on East Germany are described in great detail in the German authors' article. It is impossible, in my opinion, to agree with everything they say, particularly their statement about the "unpredictable results of this kind of experiment." The first steps naturally entailed difficulties, but they are being surmounted more or less successfully. This applies in particular to the two most serious problems of the first months following the creation of the German-German economic and currency union: privatization and the attraction of capital for the modernization of production. The results of land elections in the former GDR on 16 October 1990 proved that even the dramatic rise in unemployment had not shaken the voters' confidence in the planned course of action.

There is no question that the inhabitants of the former GDR would like to get more financial aid from the West than the amount planned at this time (115 billion marks will be paid out of the German Unity Fund alone in the next 5 years). The comments Lutze and Stelter make, however, sound more like nostalgia for the good old days: A kind uncle will pay the debts out of his own pocket. In the past this pocket was the state budget of the former GDR. Now it is apparently supposed to be the federal budget of the FRG. No, in a market there is no such kind uncle. They will have to rely mainly on private capital investments from West Germany and other EC countries.

Now that the territory of the GDR has become part of the EC, it has an understandable claim to financial resources from its centralized budget. At a meeting in October 1990 the EC Council of Ministers approved East Germany's request for 6 billion marks by 1993 from the Agricultural Fund and the same amount from the EC social and regional funds. It could probably ask for more, but it has to bear two facts in mind. On the one hand, the standard of living in the GDR is no lower than in such EC countries as Greece or Portugal. On the other, the EC partners are afraid that a unified Germany will dominate the group economy and are trying to give the federal government the responsibility of solving the problems of the former GDR.

The EC partners firmly believe that by 1993, when the third and final stage of its integration into the Community begins, coinciding with the transition to a single market, Germany will be so strong that the complete absence of border formalities and national means of customs protection will give its partners no hope of competing with it. This belief has not compromised the willingness of Community institutions to extend credit from various extra-budgetary EC funds intended exclusively for the stimulation of private business.

The inclusion of the territory of the GDR in the EC presupposes the automatic extension of all of the main aspects of joint integration policy to it. Can this be done immediately, without a transition period? Will this benefit the East German economy in the near future? These questions are an underlying theme of the German authors' article and the decisions of Community institutions. Whereas Lutze and Stelter insist on the need for a period of adaptation, however, the CEC's position is much less categorical.

No transition measures are envisaged, for example, in scientific and technical policy. The Tempus and Comet projects and other scientific education programs began to be carried out in the former GDR during the first phase of affiliation with the Community. Full-scale participation by East Germany in the EC framework program, with funds allocated for specific projects from the combined budgets of the group, is planned in the second phase.

A different approach is being taken to the introduction of environmental protection rules and standards on the territory of the GDR. In most cases, the equalization of these standards during the efforts to establish the single EC market has been based on legislative coordination with the highest existing national standards. In view of the critical level of environmental pollution in the GDR, EC institutions decided to postpone the complete equalization of ecological requirements with Community standards until 1996.

Whereas CEC policy as a whole will be consistent with the immediate needs of the East German economy in these two spheres, the "integration requests" of other countries will be given priority in such areas of joint Community policy as transportation, power engineering, and agriculture, frequently to the detriment of the former GDR. This will include, for example, the quick and virtually complete cessation of the use of brown coal, the restructuring of the energy supply with an emphasis on hydrocarbon fuels and nuclear power, and the institution of EC freight regulations in shipments of goods to third countries.

This obvious inconsistency in CEC policy is connected with the conflict between the two fundamental approaches of the EC institutions mentioned above: the hope of the quickest and fullest possible inclusion of the East German economy in the Community and the efforts to prevent negative reactions on the part of other members on the threshold of the unified market to be established by 1993.

#### **The Unified Germany and the Unified EC Market**

The surprisingly rapid unification of Germany created several serious economic problems for Germany itself and for other countries in the integrated group. The most acute concerned EC foreign trade policy. In the 1980s Community institutions made a great effort to consolidate this policy. A mechanism for import coordination has been in place since 1982, and regulations were

instituted in 1984 for protection against dumping and export subsidies in other states. This was also the year a new foreign trade instrument was enacted to guard against "other prohibited trade practices by third countries." These strict measures applied for the most part to Eastern Europe. As for the GDR, before its unification with the FRG, when it was not a member of GATT and had highly subsidized internal prices, it was the most subject of all CEMA countries to anti-dumping restrictions.<sup>3</sup>

Furthermore, the EC countries accounted for only a small percentage of GDR foreign trade: under 20 percent at the end of the 1980s. What is more, according to our estimates (GDR statistics were artificially lowered for political reasons), around three-fourths of this trade was with the FRG—reciprocal deliveries made on the basis of the 1951 Berlin agreement and not subject to customs duties. This means that the former GDR's trade with other EC states was negligible. There was, however, the fundamental possibility that products from the GDR could enter the Common Market, unimpeded and duty-free, through the FRG on the basis of the previously mentioned Berlin agreement and in accordance with the supplementary protocol to the treaty on the creation of the EEC. To avoid this, the EC countries won the right to impose discriminatory limitations on the re-export of East German goods when necessary. This right was almost never exercised, because the FRG was re-exporting only around 0.7 percent of its imports from the GDR at the end of the 1980s.<sup>4</sup>

After the emergence of the unified Germany, signifying the move to the second phase of the GDR's inclusion in the Community, the situation changed dramatically. Deliveries of goods from East Germany to the EC countries began to increase for the first time after the creation of the German-German economic and currency union in fall 1990. The unexpected early completion of the first phase effectively signified the early cancellation of the transitional discriminatory measures against goods from the former GDR. Regulations on the use of non-tariff restrictions were also liberalized radically. Firms in Community countries effectively lost their chance to lodge complaints in the European Court against the lower prices of goods imported from East Germany.

Nevertheless, the talk about the possible "threat" posed by the former GDR as a producer of goods competitive in Western Europe is largely speculative. During the transition period it is likely to remain primarily a sales market for goods produced in West Germany and other countries of the integrated group. We cannot disagree with Lutze and Stelter on this point.

The extension of supra-national legal standards to East Germany is an exceptionally important aspect of its full-scale participation in the EC. The document submitted to a meeting of the Council of Europe at the end of April 1990 already said that the primary laws of the Community—i.e., the legislative instruments of the EC

Council of Ministers that automatically acquire legal force in member-countries—should begin to be instituted on the territory of the GDR without waiting for the political unification of Germany. Later, all of the secondary laws of the Community would extend to this territory in the second phase, to the same degree as to the FRG. These are the directives of the Council of Ministers that acquire legal force only after they have been ratified by national parliaments. Many of these directives are efforts to coordinate various norms and standards, and their ratification is not a simple process in many EC countries. A significant breakthrough was not made in this area until 1989. The leaders of the EC states demanded that no exceptions be made for the GDR, because they did not want to deviate in any way from the unified market program.

It was also impossible, however, for the CEC to be completely consistent in this area. According to the estimates of several prominent Community experts, at the time of unification only 20 percent of the articles of the White Paper on the creation of the unified internal market could be applied to East Germany immediately and without reservation. For this reason, it was granted a transition period of adaptation to several primary regulations and directives in such spheres as foodstuffs, medicines, and chemical products, ranging from 6 months to 2 years. The resulting confusion in this fundamentally important area is also present in the article by the German authors, who were therefore unable to assess the effects of the enforcement of Community laws within GDR territory on the future functioning of its economy.

Membership in the EC will necessitate the appreciable restructuring of agriculture in the former GDR. After all, the common agricultural policy is one of the pillars of West European integration. At first the CEC scheduled its full-scale institution in East Germany after 1992. Whereas in most other areas the CEC agreed to the expansion of transitional measures, however, here it took a more rigid stance by passing a resolution on the application of all basic provisions at the time of political unification. The system of purchase prices and milk and sugar production quotas even began to be instituted during the first phase of the integration of the East German economy.

The appreciable liberalization of shipments from the GDR to the EC region in August 1990 was of little benefit to East German peasants because their products could not compete in terms of prices and did not meet accepted Community standards. Meanwhile, the goods which began pouring in from the West lowered the demand for locally produced goods dramatically. The status of farmers in the former GDR is unlikely to be improved perceptibly by their eligibility for a 3-percent discount on the added value tax collected in the FRG since 1985 or by the use of the 2-year period of adjustment to sell foodstuffs in the EC region, connected primarily with special packaging and quality requirements.

It seems obvious that these measures cannot produce the desired impact over the short range and perhaps even the medium range. Lutze and Stelter reach the same conclusion in their analysis. The present situation might be improved partially by allowing exports of agricultural products from the former GDR to East European countries at much lower prices than the base export prices of the EC common agricultural policy. There are clear opportunities for the expansion of interregional contacts in the new economic order that is taking shape in Europe today.

### Catalyst of Contacts in Europe

In the last part of the article the authors discuss the fundamental changes in the legal basis of East Germany's relations with its traditional foreign trade partners in connection with its inclusion in the structure of the EC customs union. Without listing all of these changes, we will analyze their effects on the structure of economic ties in Europe. After all, the very fabric of the mechanism of CEMA cooperation, which may have been inefficient but which lasted for decades, has been shredded. A transition period is obviously essential in this area.

The CEC granted several privileges for the traditional economic contacts of the former GDR. These privileges will remain in force to some degree until the end of the second phase of its integration into the EC, during which Community institutions will check the validity of all agreements concluded within the CEMA framework. The main transitional measures, however, will come to an end at the beginning of 1991. According to the CEC, this minimized the possibility of the use of various loopholes impeding the creation of the unified internal market, as well as the rapid extension of Article 115 of the Treaty of Rome, concerning national import controls, to the former GDR (or, more precisely, the new approach to this article, regulating the common terms of its application to all EC countries).

At this time Community institutions hope to turn the agreements concluded in 1988-1989 with several European CEMA countries (primarily Hungary and Poland, but also Czechoslovakia) into second-generation agreements presupposing their full-scale association with the EC. The granting of most-favored-nation status to these states within the framework of these agreements, the liberalization of anti-dumping regulations, the cancellation of visa requirements for their citizens, and so forth will make the severance of their earlier ties with the GDR less painful. Although the CEC took a more reserved stance at the end of 1990 (primarily because of the more critical state of the economy in these countries), East Germany's "mediating role" in the establishment of fundamentally new economic structures in Europe is indisputable. Will there be a place for the USSR economy in these structures, or will it stay on the periphery of Europe?

According to West German estimates, at least 45 of the bilateral agreements we had at the beginning of 1990 were of a preferential nature and conflicted with EC trade policy. The realization of the scales of the economic problems the USSR will face in connection with East Germany's inclusion in the EC, and the pressure exerted by the FRG Government, gradually convinced the CEC to grant our country a special status for a longer period than other states. It was set at 2 years in the final document the EC Council of Ministers approved in September 1990. Therefore, for the next 2 years the USSR will be able to send its goods to Germany duty-free in accordance with existing intergovernmental agreements.

Obviously, the effectiveness of these shipments will depend on the prices at which they can be sold with a view to the move to mutual settlements in hard currency in 1991. When Lutze and Stelter state that exporters from East European countries will have no choice but to lower their sale prices, they are overlooking the existence of the EC's anti-dumping policy. We can hope, of course, that incidents of deliberate dumping (in the EC's interpretation of the term) in shipments of Soviet goods to the territory of the former GDR will be difficult to prove, at least during the transition period. It would be wrong, however, to rely on loopholes of this kind over the long range.

The development of cooperative relations seems much more productive. In accordance with Article 113 of the Treaty of Rome, cooperative agreements between companies are not covered by the common foreign trade policy of the EC. There are good prospects for the renewal of existing agreements and conclusion of new ones of this type with firms located on the territory of the former GDR. This will require more vigorous effort on the part of enterprises in CEMA countries. Soviet partners have not been active enough in this area because they have relied on the traditional priority of intergovernmental agreements. In the last year, however, the situation has changed radically, and the transition period the CEC has granted will end soon. Then Soviet enterprises will have to compete in the East German market with EC firms and with exporters from East European countries who have had the time to gain strength.

The administrative organs of the EC still hope that the territory of the GDR could become something like a springboard for the intensification of economic (and not only trade) ties with Eastern Europe. In particular, there are plans for the use of existing contacts between CEMA countries and the GDR for the extension of some projects of the Eureka program and some of the EC's own research programs to these countries. This has already been done with the MAST program for the study of maritime resources, the EPOCH climatology program, and others, the number of which should rise dramatically in the near future. The CEC is trying, however, to link the development of this form of cooperation and others (for example, preferential deliveries

of agricultural products to Community countries) with the complete transition of East European states to market principles.

The Soviet Union still has not earned the full confidence of Community institutions, and it is therefore highly probable that the former GDR's move from one integrated group to another, which has stepped up the achievement of a new level of economic contacts between East and West European countries to a considerable extent, will take the USSR out of the mainstream of European cooperation. Although we feel that the East German economy's chances in the EC deserve a more positive evaluation than in the work by Lutze and Stelter, their optimistic view of the former GDR's role as a connecting link between the European Community and the USSR does not seem completely justified to us.

#### Footnotes

1. "Vertraege zur Gruendung der EG," Luxembourg, 1987, p 413.
2. "Die Gemeinschaft und die deutsche Vereinigung," CEC (90) 400.
3. "Sechster Bericht der Kommission ueber die Antidumping-und Antisubventionsmassnahmen der Gemeinschaft," CEC (89) 106.
4. J. Stehn, "Wirtschaftshilfen an die DDR," Kiel, 1989, p 14.

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#### Soviet Activity in Antarctica Opposed

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[Article by Vadim Ivanovich Makarevskiy, candidate of military sciences, senior scientific associate at the USSR Academy of Sciences World Economics and International Relations Institute: "How Much For Antarctica? (Where and on What Are We Pouring our Money?)"]

[Text] At present, the question of normalizing our state budget is a particularly acute one. The Armed Forces, the vigorous activity involving space research, the maintenance of the state apparatus, and others are mentioned among the forms of unproductive expenditures which constitute a drain on our economy. Let me add to this list yet another class of expenditure which, at the moment, is being given a low profile and which is being further increased instead of being reduced. Well, what price are we paying for Antarctica? Isn't it time to look into this matter?

Though not frequently, reports on the sixth continent do appear in the press: Now a ship with polar explorers on board has been ice-bound and rescue operations are

under way, and now, at the height of the Antarctic winter, a special flight of a special aircraft has been undertaken, recklessly risking danger; or the foundations of a new research station have been laid. Incidentally, how many Soviet stations have been installed there?

It might be a good idea to glance at the map of Antarctica and count how many red dots—polar stations—have been marked on it. Altogether, there are about 20-25 permanent stations, but if temporary seasonal stations are also taken into account, their number reaches 50. These are Antarctic stations that belong to different countries of the world: Nearby Argentina has two, Australia—three, the Republic of South Africa—one, and New Zealand—one; speaking of more distant countries, Japan and the United States have two stations each, and France and Great Britain one station each. At the same time, seven or eight red dots, or more than one-third of all the permanent stations, belong to the Soviet Union, and we are the only country in the world that has encircled the entire continent.

Our country has been conducting ever expanding work on the opening up of Antarctica for 34 years. We have the largest number of permanent stations and we have created a special ice-breaking fleet and special aircraft for operating in Antarctica. Thousands of people (tens of thousands, if maintenance personnel are taken into account), enormous material means, ships, ice-breakers, aircraft and helicopters, as well as other facilities are operating in order to ensure this activity.

For many years in the past, we have known about the diesel motor ship "Ob," its glorious Captain Man, and small groups of winterers. Now, the situation is different: It involves a gigantomania which is extremely expensive and dangerous. Every year, more or less serious accidents happen to our people, equipment, and ships. We only hear about major mishaps. As is usual, difficulties first happen and then they are heroically overcome....

In March 1989, we learned about the creation of a new—the 8th—Soviet station "Progress." However, this "Progress" has been created at the lowest technological level. We read in a 2 March PRAVDA article how difficult it had been to build it and what hardships had had to be overcome in order to fulfill somebody's order. The difficulties that are facing us in Antarctica continue to increase, and there is nothing surprising about this fact: The reason for all this is the striving to attain a first place in the world which is not only beyond our potential but, perhaps, even unnecessary and irrational. What shall we do with all this huge quantities? Incidentally, not once over many years have I come across a single article specifying real benefits that all these stations are promising.

Recently, several new stations belonging to other countries have appeared, for example, those of the PRC and South Korea, but each state has no more than one or two stations.



Twenty years ago, the Soviet Union and the United States had four stations each in Antarctica. Moreover, two of the American stations were operated jointly by the American, Australian, and New Zealand teams. At present, the United States has two stations and the USSR—eight.

A question suggests itself: "What is the purpose of all this vigorous activity—is it for the sake of science, or "the radiant future," or something else? Do we want to extract minerals at the other end of the world from under the ice shield, now that we are not quite managing to resolve similar tasks in our own land? Besides, not only all kinds of military but also industrial activity is forbidden in Antarctica. All this enormous spending is taking place at the time when we are experiencing countrywide shortages of basic necessities for our people and a huge state budget deficit. The as-yet unpaid debt to us on the part of many countries amounts to a total of 85 billion rubles [R]—the ideological "aid" to our so-called "allies" throughout the world. There is a long list of states, and all of them are "poor," except us—the "wealthy".... How about our expenditure on space research programs? Within the framework of the program "Kosmos" alone, about 2,100 units have already been launched into space—over recent years, every five or seven days, there is a new system which causes further expansion of the already existing "ozone hole" and which costs us billions of rubles.

The world's largest space complex "Energiya-Buran" is of Soviet manufacture, the world's largest aircraft "Mriya" [Ukrainian for "Dream"] is also Soviet (incidentally, it is already second largest), the world's largest helicopter "Mi-26" is Soviet, and the world's largest seaplane "Albatros" is also ours. Thus, this is a clear case of gigantomania which yields very poor results everywhere, and, so far, there is no restraint with regard to these affairs anywhere in sight. It is worth recalling the infamous wasting of R6 billion on our supersonic civil aircraft "Tu-144" which Soviet passengers have never received....

All the facts which I am talking about are not just traces of the remote past or of the "years of stagnation." Much of this is still going on without any hindrance or is even intensifying now, in the sixth year of perestroika.

Let us go back to Antarctica. Isn't it, after all, time to put things in order, introduce necessary economic measures, and radically revise our whole activity there? Of course, we do not possess complete information on how much all this costs our state (and, therefore, us, the taxpayers), what it has given us in practical terms, and what is in store. There are many questions here, but, unfortunately, we are not finding the answers to them. At the same time, the Americans have estimated, for example, that a barrel of fuel delivered there, to the South Pole, costs \$20 thousand. As they say, "over the ocean the calf costs half, but it is dear to ship it here." Our parliamentarians have not discussed this topic in the higher organs of power.

We cannot disagree with the opinion expressed by A.E. Bovin to the effect that "We Must Save Antarctica" (IZVESTIYA, 7 December 1989). We certainly must. However, what he meant is the ecological problem which exists on that faraway continent, whereas we are more concerned about the economic problem. Today's topical problem is not there but here: How much for all this ice exotica?

Will there ever be a reduction in many classes of our state expenditures including those pertaining to our activity in Antarctica, thousands of miles away from our shores, and precisely when might this happen?

We have heard more than once: Our standard of living depends on our style of work. This is only a half-truth. Our standard of living depends on the way we distribute what we have earned.

It is clear that our Antarctic program has "lobbyists" of its own. These are, for example, the Arctic and Antarctic Scientific Research Institute and other institutions supporting it. Perhaps, all this excitement is due to the fact that the Antarctic Treaty banning both military activity and the extraction of minerals there is expiring in 1991. However, all this must be explained to the Soviet taxpayer; we must report back to him about what has been done, reveal the plans that we are nurturing, and present calculations specifying the costs of their implementation.

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#### Recent Publications

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[Text] Alekseyev, S.S., "Pered vyborom. Obnovleniye ili katastrofa?" [Facing a Dilemma. Renewal Or Disaster?], 2d ed., rev. and suppl., Moscow, Yuridicheskaya literatura, 1990, 288 pages.

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#### Articles Not Translated

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